North American InTeleCom
A Diamond Shamrock Company

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AZ CORP COMMISSION
APR 1 11 08 AM '96
DOCUMENT CONTROL

March 28, 1996

NEW APPLICATION

ORIGINAL

U-3017-96-203

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Re: North American InTeleCom, Inc.
Application and Petition for Certificate of Convenience and Necessity
to Provide Competitive Intrastate Telecommunications Services as a Reseller

Dear Sir/Madam:

Enclosed please find the original and ten (10) copies of the referenced application.

Should you require anything additional in this regard, please contact me at the phone number shown below. Otherwise, I look forward to receiving confirmation that our application has been approved as submitted.

Sincerely,

Jill Al-Atar

Jill Al-Atar
Regulatory Affairs Coordinator

/jma

Enclosure

Arizona Corporation Commission
DOCKETED
APR 1 1996
DOCKETED BY SJ

14100 San Pedro • Suite 400 • San Antonio, Texas 78232 • Office: (210) 352-1400 • Fax: (210) 352-1500

FORM A

ARIZONA CORPORATION COMMISSION

Application and Petition for Certificate of Convenience and Necessity to Provide Competitive Intrastate Telecommunications Services as a Reseller

Mail original plus 10 copies of completed application to:

Docket Control Center
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

If you have current applications pending in Arizona for provision of reseller, AOS, or other telecommunication services, please identify:

Type of Service: ~~COPT~~
Docket No.: ~~U-3017-95-375~~ Date: ________

Type of Service: ____________________
Docket No.: ____________ Date: ________

For Docket Control Only:
(Place Stamp Here)

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DOCUMENT CONTROL

Docket No. U-3017-96-203

Date Docketed ____________

A. Company and Telecommunications Service Information

(A-1) The name, address, and telephone number of the applicant (company):

North American InTeleCom, Inc.
14100 San Pedro, Suite 400
San Antonio, Texas 78232
210/352-1400

Arizona Corporation Commission
DOCKETED
APR 1 1996
DOCKETED BY SS

(A-2) If doing business (dba) under a name other than the applicant (company) name listed above, specify:

N/A

(A-3) The name, address, telephone number, and facsimile number of the management contact:

Edward J. Taylor, Jr., Vice President, Operations
14100 San Pedro, Suite 400
San Antonio, Texas 78232
210/352-1400
Fax 210/352-1500

(A-4) The name, address, and telephone of the attorney, if any, representing the applicant:

E. Wayne Campbell, Vice President and General Counsel
14100 San Pedro, Suite 400
San Antonio, Texas 78232
210/352-1400

(A-5) What type of legal entity is the applicant?

☐ Sole proprietorship

☐ Partnership: ____limited, ____general, ____Arizona, ____Foreign

☐ Limited liability company

☒ Corporation: ____"S", ____"C", ____non-profit, ____Arizona, _X_Foreign

☐ Other, specify:

(A-6) Include "Attachment A." Attachment A must list names of all owners, partners, limited liability company managers, or corporation officers and directors (specify), and indicate percentages of ownership.

(A-7) 1. Is your company currently reselling telecommunication service in Arizona? If yes, provide the date or the approximate date that you began reselling service in Arizona. No.

2. If the answer to 1. is "yes", identify the types of telecommunications services you resell; whether operator services are provided or resold and whether they are provided or resold to traffic aggregators (as defined in A.A.C. Rule R14-2-1001(3), a copy of which is attached); the number of customers in Arizona for each type of service; and the total number of intrastate minutes resold in the latest 12 month period for which data are available. Note: The Commission rules require that a separate CC&N, issued under Article 10, be obtained in order to provide operator services to traffic aggregators.

3. If the answer to 1. is "no", when does your company plan to begin reselling service in Arizona?
April 1,1996

(A-8) Include "Attachment B." Attachment B, your proposed tariff, must include proposed rates and charges for each service to be provided, state the tariff (maximum) rate as well as the price to be charged, and state other terms and conditions, including deposits, that will apply to provision of the service(s) by your company.

The Commission provides pricing flexibility by allowing competitive telecommunications service companies to price their services at levels equal to or below the tariff (maximum) rates. The prices to be charged by the company are filed with the Commission in the form of price lists. See the "Illustrative Tariff/Price List Example" attached. Note: Price list rate changes that result in rates that are lower than the tariff rate are effective upon concurrent notice to the Commission (See Rule R14-2-1109(B)(2)). See Rule R14-2-1110 for the procedures to make price list changes that result in rates that are higher than the tariff rate.

(A-9) The geographic market to be served is:

[X] statewide.

[ ] other, describe and provide a map depicting the area.

(A-10) List the states in which you currently resell services similar to those you intend to resell in Arizona.

AL, AR, CA, CO, DE, GA, ID, IL, IA, KS, KY, LA, MA, MD, MN, NE, NV, NH, NJ, NM, NY, ND, OH, OK, OR, PA, SC, SD, TN, TX, WA, WV, WI, WY

(A-11) Provide the name, address, and telephone number of the company's complaint contact person.

Edward J. Taylor, Jr., Vice President, Operations
14100 San Pedro, Suite 400
San Antonio, Texas 78232
210/352-1400

(A-12) Provide a list of states in which you have sought authority to resell telecommunications services and in which the state granted the authority <u>with major changes and conditions or did not grant</u> your application for those services. For each state listed, provide a copy of the commission's decision modifying or denying your application for authority to provide telecommunications services.

North American InTeleCom, Inc. has not been denied authorization from any state regulatory agency.

(A-13) Has the company been granted authority to provide or resell telecommunications services in any state where subsequently the <u>authority was revoked</u>? If "yes", provide copies of the state regulatory commission's decision revoking its authority.

No.

(A-14) Has the company been or is the company currently involved in any formal complaint proceedings before any state or federal regulatory commission? If "yes", in which states is the company involved in proceedings and what is the substance of these complaints. Also, provide copies of commission orders that have resolved any of these complaints.

Yes. Investigation by the Florida Public Service Commission. See Attachment A-14.

(A-15) Has the applicant been involved in any civil or criminal investigations related to the delivery of telecommunications services within the last five years? If "yes", in which states has the applicant been involved in investigations and why is the applicant being investigated?

Other than response to A-14, no.

(A-16) Has the applicant had judgment entered against it in any civil matter or been convicted of criminal acts related to the delivery of telecommunications services within the last five years? If yes, list the states where judgment or conviction was entered and provide a copy of the court order.

No.

B. Technical Information

(B-1) If your company is a switchless reseller, provide the name of the company or companies whose services you resell and skip to question (B-2). If you are not a switchless reseller, complete the remainder of this section.

Include "Attachment C." Attachment C should provide the following information: A diagram of the applicant's basic call network used to complete Arizona intrastate telecommunications traffic. This diagram should show how a typical call is routed in both its originating and terminating ends (i.e. show the access network and call completion network).

Also include on the diagram the carrier(s) used for each major network component and indicate if the carrier is facilities-based or not. If the carrier is not facilities-based, indicate who owns the facilities (within the State of Arizona) that are used to originate and terminate the applicant's intrastate telecommunications traffic (i.e. provide a list of the Arizona facilities-based long distance carriers whose facilities are used to complete the applicant's intrastate traffic).

(B-2) Will your customers be able to access alternative toll service providers or resellers via 1+ or 10XXX access, if your system becomes non-operational? Yes.

C. Financial Information

(C-1) Include "Attachment D." Attachment D should provide copies of the following audited financial information for the most recent two years for all Arizona operations. Check boxes indicating items attached.

- ☐ current intrastate balance sheet
- ☐ current intrastate income statement
- ☐ current intrastate cash flow statement
- ☒ other financial information evidencing financial resources. Applicant is a wholly owned subsidiary of Diamond Shamrock Refining and Marketing Company, a regional oil refiner and marketer and a Fortune 500 Company. Attached is parent company's 1994 Annual Report, which includes financial information for all allied businesses, including Applicant.

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations related to the regulation of telecommunications services and that the company will abide by Arizona State law including the Arizona Corporation Commission Rules and Regulations. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

(Signature of Authorized Representative)

March 28, 1996
(Date)

Edward J. Taylor, Jr.
(Printed Name of Authorized Representative)

Vice President, Operations
(Title)

SUBSCRIBED AND SWORN to before me this 28th day of March, 1996

NOTARY PUBLIC

My Commission Expires August 20, 1997

ATTACHMENT A

NORTH AMERICAN INTELECOM, INC.

State of Incorporation: Delaware

Date of Incorporation: May 23, 1989

Officers:

J. Robert Mehall	Chairman and Chief Executive Officer
Donald B. Vaello	President
Barry E. FitzGerald	Senior Vice President
Timothy J. Fretthold	Vice President
Daniel W. Wilson	Vice President
David S. Clark	Vice President
Edward J. Taylor, Jr.	Vice President
Gary E. Johnson	Vice President and Controller
Robert C. Becker	Vice President, Treasurer and Assistant Secretary
Jerry D. King	Secretary
Alan Babcock	Assistant Treasurer and Assistant Secretary
Margaret J. Gowans	Assistant Treasurer and Assistant Secretary
C. J. Wydra	Assistant Controller and Assistant Secretary
E. Wayne Campbell	Vice President, General Counsel and Assistant Secretary
Patti K. Meisetschleager	Assistant Treasurer

Directors:
Gary E. Johnson
J. Robert Mehall
Jerry D. King

Authorized Capital Stock: 1,000 Common Shares

Issued and Outstanding Capital Stock: 100 Common Shares

Authorized Par Value: $0.01

Stock Ownership: Diamond Shamrock Refining and Marketing Company 100% - 100 Common Shares

Fiscal Year: January 1st to December 31st

Registered Agent: (Arizona) C. T. Corporation System
3225 North Central Avenue
Phoenix, Arizona 85012

ATTACHMENT A-14

North American InTeleCom, Inc.

Pending Litigation

1. Before the Florida Public Service Commission, Docket Nos. 930416-TC and 950149-TC; In Re: Investigation of North American InTeleCom, Inc. for incorrect billing of collect calls from various prisons.

   Contested matter as to whether NAI incorrectly timed calls in parts of 1993 and 1994, so as to result in charges to some customers in excess of applicable maximum rates (the "one minute problem"). Contested matter as to whether computer program employed by NAI resulted in a temporary mis-rating of calls from some facilities. Contested matter related to NAI's failure to correctly track AT&T's tariff on time-of-day discounts ("AT&T rounding problem"). All issues were referred to mediation.

2. A two-part settlement was proposed by NAI. At a hearing held on February 20, 1996, the PSC accepted part one of the settlement pursuant to which: (i) NAI will refund $15,000 related to the AT&T rounding problem, (ii) NAI will refund $35,000 plus interest related to the mis-rating problem, and (iii) NAI will make a payment of $25,000 to the General Revenue Fund. As to part two of the settlement, NAI has agreed to endeavor to refund all overcharges which the PSC staff alleges resulted from the one minute problem, with interest. The maximum amount of overcharges under the PSC staff's interpretation of the rules has preliminarily been calculated at about $395,000. NAI has sought credit for approximately $145,000 of that amount. Whether this credit will be allowed is to be decided after it is determined what portion of the refund can actually be effected to the proper parties.

See the attached notice for the February 20, 1996 hearing. No final Order has been entered.

Agenda for
Commission Conference
February 20, 1996

ITEM NO. | CASE

19** DOCKET NO. 930416-TC - Investigation of North American Intelecom, Inc. for incorrect billing of collect calls from various prisons.
DOCKET NO. 950149-TC - Initiation of show cause proceedings against North American Intelecom, Inc. for violation of Commission rules and orders.

Dockets Opened: 4/22/93 and 2/8/95

Critical Date: None

Commissioners Assigned: CL JN GR
Prehrg Officer CL

Staff: LEG: Billmeier
CMU: King, Moses

Issue 1: Recommendation that the Commission accept North American Intelecom, Inc.'s (NAI) settlement proposal for the matters resolved by mediation. If the Commission accepts the settlement, NAI agrees to make a payment of $25,000 to the General Revenue Fund, to refund $35,000 plus interest for the six-facility misrating problem, and to refund at least $15,000 for the AT&T discount-rounding problem. The refund amount for the one-minute billing problem is still in dispute. Although NAI's settlement addressed other issues as well, those issues are now moot since NAI is no longer providing service at confinement facilities.
Issue 2: Recommendation that the Commission not accept NAI's settlement proposal for the matters not resolved by mediation, because it does not refund the full amounts due to customers.
Issue 3: Recommendation that, if the Commission accepts the recommendations in Issues Nos. 1 and 2, this docket should remain open to hold a hearing to settle the remaining issues. If the Commission approves NAI's settlement proposals, the dockets should be closed upon staff's verification that the terms of the settlement agreement have been completed.

ATTACHMENT B

INTEREXCHANGE SERVICES TARIFF

1. Pre-Paid Calling Card Service

North American InTeleCom, Inc. processes calls made via Pre-Paid Calling Cards, which are sold by retail vendors throughout the State of Arizona.

Customers may purchase Pre-Paid Calling Cards in denominations of $5, $10 and $20, which allow 15, 30 and 80 minutes of calling time, respectively. To use the Pre-Paid Calling Card, the Customer, following the instructions printed on the back of the card, takes the following steps:

-- dials 1-800-807-6011, which connects call to North American InTeleCom, Inc.'s debit card platform;
-- selects English or Spanish as their language of choice;
-- follows a series of voice prompts giving directions on placement of a call

A 24 hour customer service center is available to Customers by dialing 1-800-759-8942. Customers are able to obtain card balance information (number of minutes remaining on the card), assistance with the use of the card, or request adjustments if necessary.

If a Customer is not satisfied with the service, they are instructed to contact the customer service center, where a representative will request that the card be returned. Upon receipt of the card, Company will issue a refund check to the Customer for the balance remaining on the card. If a Customer has a card which is defective (no PIN number, missing digit in PIN number, blurred information, etc.), the defective card shall be returned to the retail vendor, who will give the Customer a new card and return the defective card to the Company.

2. Pre-Paid Calling Card Rates

Card Denomination	Minutes of Use	Per Minute Retail (Domestic)
$ 5.00	15	$ 0.33000
$10.00	30	$ 0.33000
$20.00	80	$ 0.25000

International Rates will vary. Requests for international rates should be referred by Customer to customer service representative at 1-800-759-8942.

Issued by:
Edward J. Taylor, Jr., Vice President, Operations
North American InTeleCom, Inc.
14100 San Pedro, Suite 400
San Antonio, Texas 78232

INTEREXCHANGE SERVICES TARIFF (CONT'D)

3. Alternative Operator Services

Company or Subscriber owned coin operated pay telephones located within the State of Arizona will be connected to Company's operator service center for calls originating within the State of Arizona. North American InTeleCom, Inc. offers operator assisted long distance services to Subscribers primarily serving the transient public. All services anticipate the provision of operator services, calling card or commercial credit card billing. These services will be provided by either a live or automated operator from the Company's operator service center in San Antonio, Texas.

Customers may arrange to have calls billed to major credit cards, calling cards, to the called party (collect) or to a third party numbers. The Company will not block or allow Subscribers to block or cause to have blocked the completion of calls which would allow the caller to reach a long distance company different from North American InTeleCom, Inc.

North American InTeleCom, Inc. utilizes the services of Independent Telecommunications Network (ITN) to perform calling card validations. The Company adheres to standard industry guidelines of operator courtesy and efficiency.

Emergency "911" calls are not routed to the Company, but are completed through the LEC. If a Customer dials a Company operator, dials "0-" or "00" for an emergency call, or if a "911" call is mistakenly routed to the Company, then the Company's system will handle the call efficiently and expeditiously. Operator software retains an emergency number database associated with the originating location of the call. This database includes numbers for police, fire, ambulance and poison control. The operator will then proceed to connect the Customer to the appropriate emergency agency for the Customer's originating location, remaining in the connection for the duration of the call.

Customers with inquiries or complaints regarding their bill may call the toll-free number provided on their bill. Such calls will be handled informally by service personnel who have authority to adjust bills on behalf of the Company. Other inquiries, general questions or complaints may be directed informally to either a Company operator or customer service representative. Customers may reach a customer service representative by dialing 1-800-759-7938, which is a Company toll-free number. This number is posted at the Subscriber's telephone location or may be obtained by asking the billing agent's customer service representative. Company's customer service department handles Customer inquiry calls between the hours of 8:30 a.m. and 5:00 p.m. Monday through

Issued by:
Edward J. Taylor, Jr., Vice President, Operations
North American InTeleCom, Inc.
14100 San Pedro, Suite 400
San Antonio, Texas 78232

INTEREXCHANGE SERVICES TARIFF (CONT'D)

Friday Central Time, except Company recognized holidays. Complaints concerning the charges, practices, facilities or services of the Company shall be investigated promptly and thoroughly.

4. Alternative Operator Services/Intrastate Rates

Miles	Rate Prd.	Initial Minute	Add'l Minutes	Initial Cost	Add'l Cost
0-10	1	1.00	1.00	0.21000	0.10000
	2	1.00	1.00	0.15000	0.07000
	3	1.00	1.00	0.12000	0.05000
11-22	1	1.00	1.00	0.32000	0.15000
	2	1.00	1.00	0.21000	0.09000
	3	1.00	1.00	0.17000	0.08000
23-55	1	1.00	1.00	0.33000	0.19000
	2	1.00	1.00	0.24000	0.13000
	3	1.00	1.00	0.19000	0.10000
56-124	1	1.00	1.00	0.40000	0.24000
	2	1.00	1.00	0.28050	0.16050
	3	1.00	1.00	0.23000	0.13500
125-292	1	1.00	1.00	0.40000	0.26000
	2	1.00	1.00	0.29000	0.18000
	3	1.00	1.00	0.23000	0.15000
293+	1	1.00	1.00	0.42000	0.29000
	2	1.00	1.00	0.30000	0.19000
	3	1.00	1.00	0.26000	0.16000

Sunday	Weekday	Saturday	Holiday
0-1659 Rate 3	0- 759 Rate 3	0-2359 Rate 3	0-1659 Rate 3
1700-2259 Rate 2	800-1659 Rate 1		1700-2259 Rate 2
2300-2359 Rate 3	1700-2259 Rate 2		2300-2359 Rate 3
	2300-2359 Rate 3		

NOTES: 1. All calls are charged by the minute.
2. Calls timed at a fraction of a minute will be rounded to the next higher minute.
3. For Operator Service Charge, refer to applicable type of call.

Issued by:
Edward J. Taylor, Jr., Vice President, Operations
North American InTeleCom, Inc.
14100 San Pedro, Suite 400
San Antonio, Texas 78232

INTEREXCHANGE SERVICES TARIFF (CONT'D)

5. Alternative Operator Services/Intrastate Operator Service Charges

Type Call	Intrastate
Calling Card	$ 0.50
Operator Station	$ 1.30
Person to Person	$ 3.00
Directory Assistance	NO CHARGE
Emergency Calls	NO CHARGE

Issued by:
Edward J. Taylor, Jr., Vice President, Operations
North American InTeleCom, Inc.
14100 San Pedro, Suite 400
San Antonio, Texas 78232

INTEREXCHANGE SERVICES PRICE LIST

1. Pre-Paid Calling Cards

Card Denomination	Minutes of Use	Per Minute Retail (Domestic)
$ 5.00	15	$ 0.33000
$10.00	30	$ 0.33000
$20.00	80	$ 0.25000

2. Alternative Operator Services/Intrastate Rates

Minute	Rate Prd.	Initial Minute	Add'l Minute	Initial Cost	Add'l Cost
0-10	1	1.00	1.00	0.21000	0.10000
	2	1.00	1.00	0.15000	0.07000
	3	1.00	1.00	0.12000	0.05000
11-22	1	1.00	1.00	0.32000	0.15000
	2	1.00	1.00	0.21000	0.09000
	3	1.00	1.00	0.17000	0.08000
23-55	1	1.00	1.00	0.33000	0.19000
	2	1.00	1.00	0.24000	0.13000
	3	1.00	1.00	0.19000	0.10000
56-124	1	1.00	1.00	0.40000	0.24000
	2	1.00	1.00	0.28050	0.16050
	3	1.00	1.00	0.23000	0.13500
125-292	1	1.00	1.00	0.40000	0.26000
	2	1.00	1.00	0.29000	0.18000
	3	1.00	1.00	0.23000	0.15000
293+	1	1.00	1.00	0.42000	0.29000
	2	1.00	1.00	0.30000	0.19000
	3	1.00	1.00	0.26000	0.16000

Sunday	Weekday	Saturday	Holiday
0-1659 Rate 3	0- 759 Rate 3	0-2359 Rate 3	0-1659 Rate 3
1700-2259 Rate 2	800-1659 Rate 1		1700-2259 Rate 2
2300-2359 Rate 3	1700-2259 Rate 2		2300-2359 Rate 3
	2300-2359 Rate 3		

INTEREXCHANGE SERVICES PRICE LIST (CONT'D)

NOTES: 1. All calls are charged by the minute.
2. Calls timed at a fraction of a minute will be rounded to the next higher minute.
3. For Operator Service Charge, refer to applicable type of call.

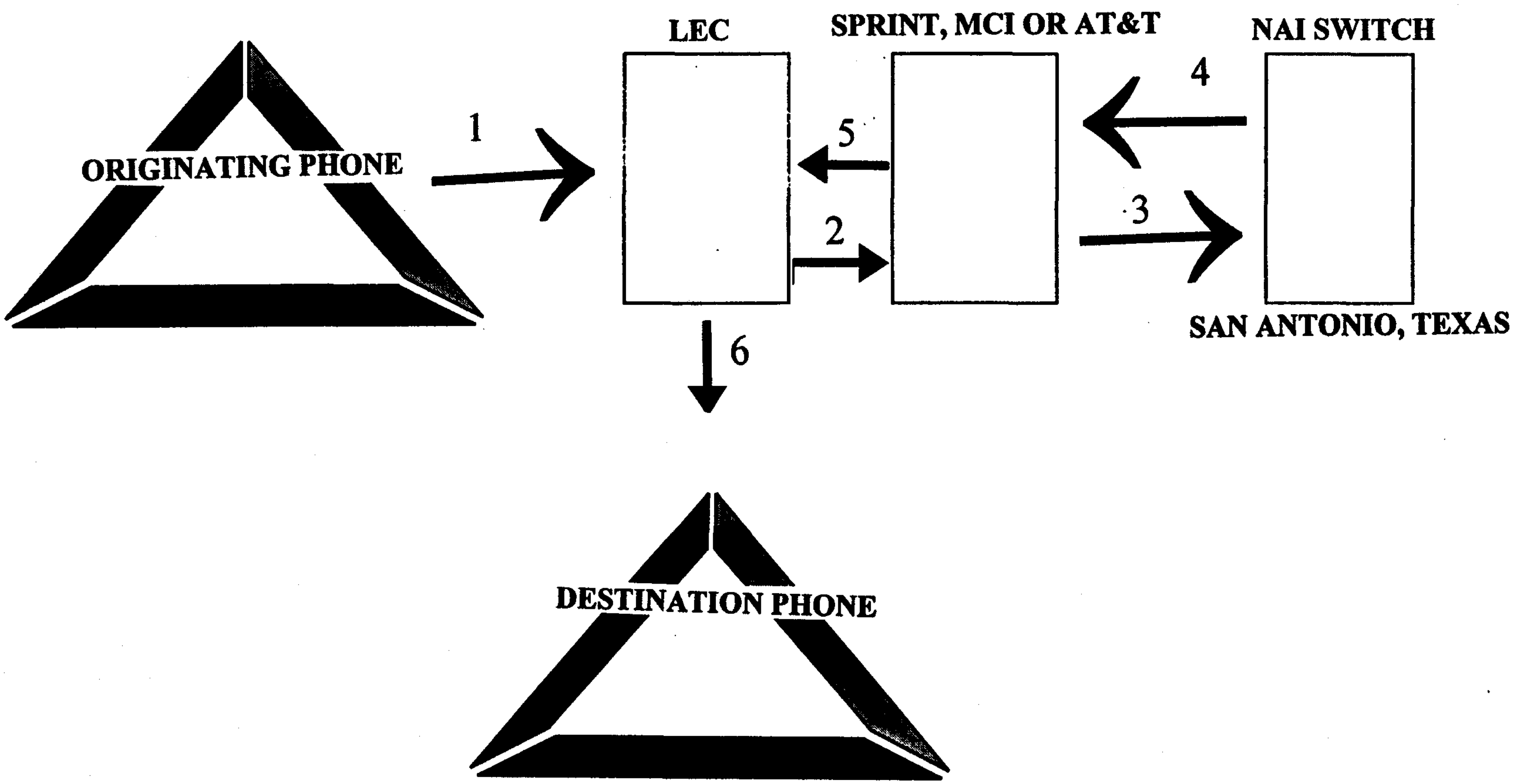
3. Alternative Operator Services/Operator Service Charges

Type Call	Intrastate
Calling Card	$ 0.50
Operator Station	$ 1.30
Person to Person	$ 3.00
Directory Assistance	NO CHARGE
Emergency Calls	NO CHARGE

Issued by:
Edward J. Taylor, Jr., Vice President, Operations
North American InTeleCom, Inc.
14100 San Pedro, Suite 400
San Antonio, Texas 78232

ATTACHMENT C

APPLICANT'S BASIC CALL NETWORK USED TO COMPLETE ARIZONA INTRASTATE TELECOMMUNICATIONS TRAFFIC



ATTACHMENT D

DIAMOND SHAMROCK, INC.

ANNUAL REPORT 1995

OUR BALANCED SYSTEM,

MOVING FORWARD

CONTENTS

COMPANY PROFILE

Diamond Shamrock, Inc. is a highly focused, regional refiner and marketer of petroleum products. Its two efficient refineries in Texas have a combined throughput capacity of over 215,000 barrels per day (BPD) and operate at near capacity levels, producing quality gasoline, diesel, jet fuel, and other petroleum products. Approximately 4,200 miles of company-owned pipelines bring crude oil into the refineries or take refined products to 16 products terminals throughout the company's Southwest markets. Annually, the company sells over 1.8 billion gallons of performance-tested gasoline through 2,709 outlets—including 1,506 company-operated Corner Stores and Stop N Go locations in Texas, Colorado, Louisiana, New Mexico, Arizona, and 1,203 Diamond Shamrock branded jobber outlets in eight states. Other businesses include petrochemical processing, anhydrous ammonia, and natural gas liquids storage, marketing, and distribution. Headquartered in San Antonio, Texas, Diamond Shamrock employs over 10,000 people.

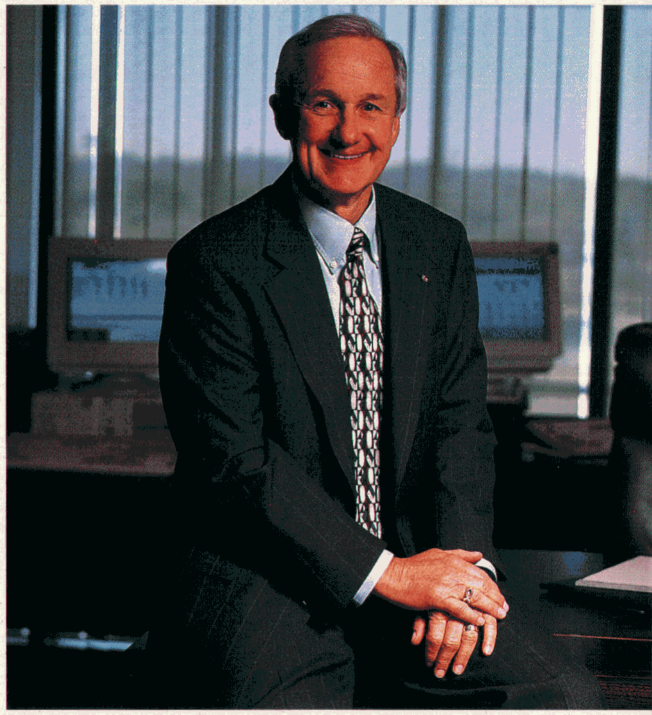
FINANCIAL AND OPERATING HIGHLIGHTS

(dollars in millions, except per share or as indicated)	1995	1994	1993	1992	1991
FINANCIAL					
Sales and operating revenues	$ 2,936.8	$ 2,606.3	$ 2,555.3	$ 2,602.6	$ 2,575.9
Income from continuing operations	47.3	75.8	32.6	26.4	37.1
Net income	47.3	75.8	18.4	8.7	37.1
Net cash provided by operating activities	117.6	176.2	109.3	120.3	54.6
Capital expenditures	556.6	162.1	131.8	170.5	180.1
Total assets *(year-end)*	2,245.4	1,620.8	1,349.2	1,297.5	1,222.3
Total debt as a % of total capital *(year-end)*	58.6%	43.4%	45.9%	51.9%	47.0%
Return on average stockholders' equity	8.3%	15.2%	6.9%	6.0%	9.6%
Per common share					
Primary earnings:					
Continuing operations	$ 1.48	$ 2.45	$ 1.04	$ 0.92	$ 1.39
Net income	1.48	2.45	0.55	0.30	1.39
Fully diluted earnings:					
Continuing operations	$ 1.46	$ 2.34	$ 1.04	$ 0.92	$ 1.36
Net income	1.46	2.34	0.55	0.30	1.36
Cash dividends per share:					
Common	$ 0.56	$ 0.53	$ 0.52	$ 0.52	$ 0.52
Preferred	2.50	2.50	1.28	–	–
Common stock price *(year-end)*	$ 25⅞	$ 26¹⁄₆₄	$ 24¼	$ 18½	$ 19¼
OPERATING					
Crude oil throughput *(barrels per day)*	204,938	195,663	180,229	164,684	160,003
Refined product sales *(barrels per day)*	238,146	225,697	212,037	199,193	188,609
Refined product spread *(dollars per barrel)*	3.49	4.40	3.76	3.21	3.79
Total branded outlets *(year-end)*	2,709	2,016	1,970	1,924	1,918
Total company operated Corner Store outlets *(year-end)*	845	810	776	761	763
Total NCS outlets *(year-end)*	661	N/A	N/A	N/A	N/A
Retail gasoline sales *(barrels per day)*	61,766	56,410	55,473	53,931	50,876
Merchandise sales *(dollars per day)*	957,888	872,865	820,701	792,643	710,466

1995 A MILESTONE YEAR

I am keenly aware that earnings per share is a very important measure of corporate success. In this regard, our net income of $47.3 million or $1.46 per fully diluted common share was a disappointment. Achieving planned operating income in retail marketing and double our plan in allied businesses could not offset the impact of poor refining margins.

Also, I believe it is critically important to add long-term value to the corporation by focusing on the customer, controlling costs, and investing wisely. In adding long-term value, 1995 was an outstanding year for our corporation. Record production and sales volumes were achieved in almost every area of the company. I am proud that our Corner Stores were named Convenience Store Chain of the Year by *Convenience Store Decisions Magazine*, that our propylene splitter operation received the coveted ISO 9000 quality certification, that our refineries continue to rank at the top of competition in efficiency and reliability, and that our people throughout the company continue to set safety records.

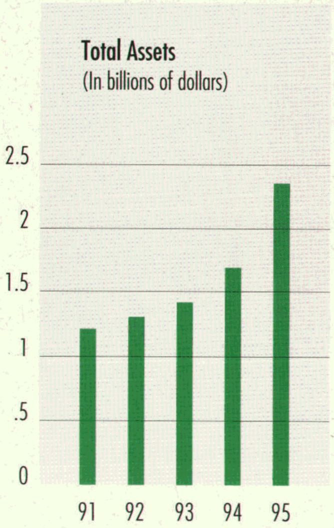


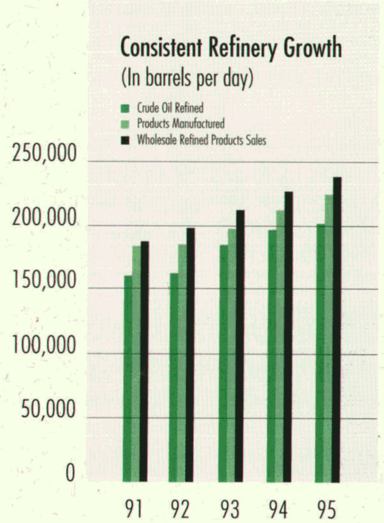
Roger Hemminghaus
Chairman, CEO, and President

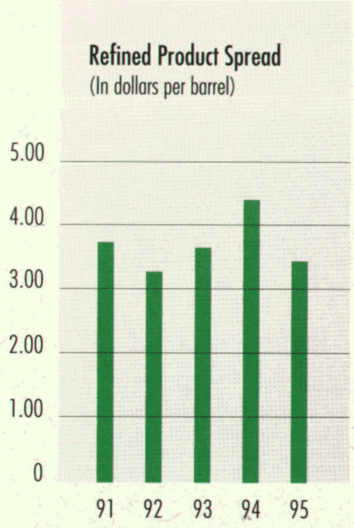
We completed a number of projects during the year that add considerable future earnings strength. The more significant of these include a new crude receipt terminal at Corpus Christi with a pipeline to our Three Rivers refinery, completion of the very strategic El Paso pipeline and terminal, the start up of a new hydrogen production plant at the Three Rivers refinery, and of course, the highlight of the year, the acquisition of 661 Stop N Go convenience stores.

Merchandise, starting years ago as a secondary use of our real estate, has grown to become a very important profit center. While we have had increases of convenience store merchandise sales—eight to ten percent annually for a number of years—the addition of the Stop N Go stores triples our merchandise sales to a level approaching a billion dollars per year. This adds significant income growth and stability since merchandise margins are quite stable compared to margins on wholesale and retail petroleum product sales. We are making a meaningful change in our business mix. Historically, refining has contributed, on average, over seventy-five percent of our income. This will drop to about fifty percent in the future, with retail increasing to thirty-five percent while chemicals and our natural gas liquids service business increase to fifteen percent or more.

Smartly applying state-of-the-art technology is making us more efficient and giving us a competitive edge. Last year we installed the latest cat cracking reactor technology in both





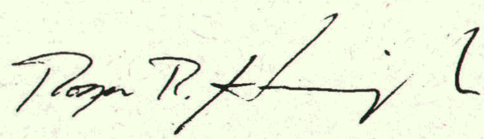


of our refineries, and we've already noted a significant improvement in product yield. Advanced controls are being added to all major refining units. Diamond Shamrock was the first major convenience store chain to have a personal computer-based state-of-the-art point of sale and transaction information and inventory control system in every store. This system is being refined and is a key tool in achieving our goal of providing unprecedented focus on the customer. A company-wide effort to migrate financial, accounting, and personnel systems from the mainframe computer to a client server network was essentially completed during the year. This provides immediate cost savings and the potential to continue increasing the effectiveness and productivity of our staff functions.

1996 should be a very good year for our company. We will realize improved earnings from the numerous projects that were completed and started up this past year and will continue to add value with the completion of an expansion at Three Rivers, doubling of propylene splitter capacity, and the construction of a benzene toluene xylene extraction unit at Three Rivers to be complete in 1997. During the first half of 1996 we will fully integrate the Stop N Go stores into our system to begin to achieve very significant synergies in overhead savings, purchasing and promotional leverage, and increased branded gasoline sales.

While we stretched the balance sheet in acquiring the Stop N Go stores, we are committed to return our balance sheet to pre-acquisition ratios by the end of 1997. This will be accomplished through cash generated from operations, control of capital expenditures, and a pruning of some assets. It is important that we maintain a strong balance sheet to be positioned to respond to future opportunities.

Our team is truly excited about our future opportunities and prospects. We thank you for your investment in our company and want to assure you that we are working hard to add value to that investment.



Roger R. Hemminghaus

Chairman, CEO, and President

March 1,1996

OUR BALANCED SYSTEM, MOVING FORWARD

Diamond Shamrock is a company in motion. From the crude oil arriving at our refineries to the vehicles leaving our convenience stores, we fuel progress. And as our history indicates, we do it with extraordinary skill.

With our 1987 spin-off, we became an independent corporation and merged strong leadership, a customer-focused mission statement, and dedicated employees to inspire a new vision for the company. We made a commitment to continue enhancing our refining and marketing core businesses, while adding balance through allied businesses.

The spin was a significant juncture for the company, and we realized part of its impact in 1995 when Diamond Shamrock became the largest marketer of gasoline and the largest convenience store operator in Texas — and received the 1995 "Convenience Store Chain of the Year" award from *Convenience Store Decisions* magazine. These milestones were gratifying not only because they were the result of our valued employees' efforts, but they demonstrated progress made in our vision to "Be the Best, Grow, and Win."

We now strategically move Diamond Shamrock's balanced system forward — pleased with our enhanced strengths and excited about our future.

Refining at a glance

Both of Diamond Shamrock's complex refineries benefit from favorable inland locations, extensive crude oil and refined products pipeline systems, and skilled and experienced work forces. Our refineries have comparatively new processing units that utilize the latest technologies. With employees who focus on continuous quality improvement and cost-efficient operations, we are a leader in the refining industry and continue to be ranked as one of the most efficient refiners in the industry.

McKee Refinery

Located in the Texas Panhandle north of Amarillo, the refinery runs near capacity, producing high-value refined products sold into Texas, New Mexico, Colorado, and Oklahoma markets. Crude throughput capacity is 140,000 barrels per day (BPD).

Three Rivers Refinery

The plant is located halfway between Corpus Christi and San Antonio and is well-positioned to supply gasoline, diesel, and jet fuel to South and Central Texas markets and to Mexico. Crude throughput capacity is 75,000 BPD.

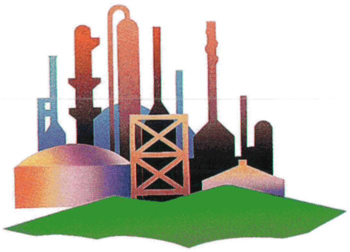
REFINING Paul Eisman, Vice President, Refining

"We continually look for ways to improve our operations by adding flexibility to our feedstock slate, improving our product yields, and reducing our operating costs. As we add processing capability at the refineries, we are gradually substituting more sour crudes that are less expensive than light sweet crudes, which have been the primary feedstock of the refineries in the past. All of our projects at both refineries are consistent with our strategy of reducing feedstock costs.

"We will increase value by optimizing the plants' operations to produce maximum product value and by

Virginia Herring, Three Rivers Refinery

McKee Refinery



Three Rivers refinery expansion. Three projects are integral to increasing flexibility and expanding capacity to 85,000 BPD, and each gives us increased crude flexibility. The hydrogen plant — the first step in the process — began operations in October. We completed the sulfur plant in first quarter 1996, and the heavy gas oil hydrotreater, which is the most significant project in terms of its impact, is scheduled to be in operation by third quarter 1996. Diamond Shamrock purchased and relocated the hydrogen plant and hydrotreater from another facility to minimize construction costs and expedite the project schedule.

Throughput records at refineries. At McKee, we kept utilization at near-capacity levels. McKee reached a one-month throughput record with an average of 140,385 BPD of crude oil processed in August of 1995, and Three Rivers broke the one-month record with an average of 80,182 BPD in October. Average combined crude throughput for 1995 was 204,938 BPD, also a record.

Highlights — 1995 and beyond

TAME unit, McKee refinery. Completed in 1995, the unit helps us economically meet oxygenate requirements for reformulated gasoline. Diamond Shamrock employees completed the detailed design and constructed the unit at a fraction of the cost of the industry average.

Catalytic cracker turnaround at McKee. During an 18-day shutdown in September 1995, employees completely changed out regenerator internals and the reactor feed nozzle — ensuring that our technology is state-of-the-art.

Hydrogen Plant, Three Rivers Refinery

completing projects over the next several years to produce aromatics and other higher-valued petrochemicals. Also, we plan to get more out of our existing hardware at both refineries by increasing computer-controlled process units to optimize throughput yield and energy consumption.

"Over the next several years our strategy is to continue to expand production to match our growing market penetration — reaching 150,000 barrels per day of crude oil charge at the McKee refinery and 100,000 at Three Rivers. We will accomplish these strategies while maintaining our very competitive cost structure. Additional throughput and automation will allow us to reduce overhead costs, and with information technology, we will provide immediate feedback to our operators and give them the tools they need to optimize the plants."

Tony Dickens with laser thermometer, Three Rivers Refinery

Advanced process control. This high-technology project at McKee and Three Rivers moves us toward computer control of process units, with ability to change control points and manipulate the refining process from computer screens. A multi-year project, upgrading our control system optimizes efficiency of units, helps communicate information — and makes significant profits for our refineries.

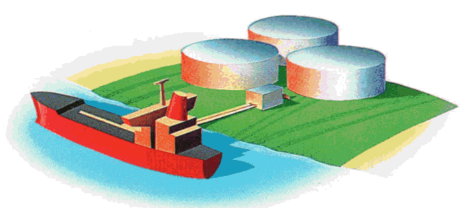
BTX aromatics plant, Three Rivers refinery. This project upgrades gasoline components for sale into petrochemical markets, providing greater flexibility to maximize profitability according to market conditions. Completion is targeted for 1997.

Highlights —1995 and beyond

S U P P L Y Bill Klesse, Executive Vice Pres

El Paso pipeline and terminal. Our 10-inch diameter, 408-mile pipeline from McKee to El Paso became operational in November and has the initial capacity to bring 27,000 BPD of refined products to El Paso. The pipeline — which is easily expandable to 50,000 BPD by adding pumping capability — supplies petroleum products to West Texas, New Mexico, Mexico, and, eventually, Arizona.

The new high-technology terminal has 10 storage tanks with a capacity of 500,000 barrels of refined products and employs the latest environmental and safety features. The terminal also has 20,000 BPD of propane storage and a propane loading rack.



Corpus Christi crude receipt facility. This crude storage terminal, which became operational in January 1995, ensures a long-term crude supply for the Three Rivers Refinery. It receives crude from a Port Authority dock through a 36-inch diameter pipeline. Crude is moved through 70 miles of 16-inch diameter pipeline from the terminal to the Three Rivers refinery.

South American sweet crude economies. Because of its configuration and location, the Three Rivers refinery is finding it advantageous to process larger volumes of the high-quality crudes now being produced in Colombia, notably Cusiana and Cano Limon.

"Diamond Shamrock's network of crude oil pipelines supplies our McKee and Three Rivers refineries efficiently, while our refined products pipelines effectively link us to our targeted markets.

"Logistics are a major strength of the company, and our strategy continues to be to optimize our system. We constantly analyze our operations, striving to lower our crude oil acquisition costs and distribute our refined products to the highest netback markets.

Driver at computerized fueling system, Harlingen Terminal

"Our current efforts are focused on completion of the Colorado Springs to Denver pipeline and increasing utilization of the new pipeline to El Paso."

El Paso Pipeline Construction

Supply at a glance

Approximately 4,200 miles of company-owned pipelines bring crude oil into the McKee and Three Rivers refineries or transport finished petroleum products to Diamond Shamrock's Southwest markets.

Crude Supply

Diamond Shamrock owns and operates 1,268 miles of crude oil pipelines, which ensure that we have adequate supply at both refineries. The McKee refinery supply system accesses domestic crude oil from Texas, Oklahoma, Kansas, and Colorado — and the Wichita Falls to McKee pipeline accesses crudes from West Texas or foreign sources.

The Three Rivers refinery runs mostly foreign-produced crude oils received at our Corpus Christi, Texas, terminal.

Product Supply

Diamond Shamrock's 2,959 miles of efficient and environmentally sound refined products pipelines transport gasoline, diesel, propane, and jet fuel to 16 company-operated products terminals in key marketing areas. The company also has purchase or exchange agreements at 43 terminals throughout our nine-state marketing region.

Marketing at a glance

Diamond Shamrock operates 1,506 conveniently located stores throughout the Southwest.

The 845 Diamond Shamrock Corner Stores and 661 Stop N Go stores sell quality gasoline and a wide range of merchandise. Our stores offer unparalleled convenience for customers in Texas, Colorado, New Mexico, Louisiana, and Arizona.

We continue to build modern, clean, and bright high-volume outlets that are industry models, with state-of-the-art technology and security systems.

There are an additional 1,203 quality retail facilities — branded Diamond Shamrock and owned by 135 independent jobbers — marketing Diamond Shamrock motor fuel throughout eight states. Most of these stores also carry a broad range of convenience items.

Commercial Sales markets the remainder of petroleum products, including unbranded gasoline and diesel, turbine, jet fuel, lube oil, and asphalt as well as sulfur, sulfuric acid, ammonium thiosulfate, carbon black oil, and other refinery products.

Diamond Shamrock's proprietary credit card customers now number over 750,000 accounts, and our fleet credit card has grown to over 6,800 accounts with more than 76,000 cardholders.

Ed O' Donnell, President, Marketing

"Market share growth has been our byword for the year. Although our most dramatic growth in 1995 was in Texas with the National Convenience Store/Stop N Go acquisition, we steadily gained market share in Colorado and New Mexico — and entered the Arizona market at year end.

"Looking to the future, we will continue to seek opportunities to expand and to develop new stores, primarily in Colorado and Arizona — but our focus in 1996 will be on integrating the Stop N Go stores with Diamond Shamrock. We will retain the Stop N Go store name because of its convenience store strength,

Bonnie Kochanowski (left) and Renae Simms, Corner Store #1041

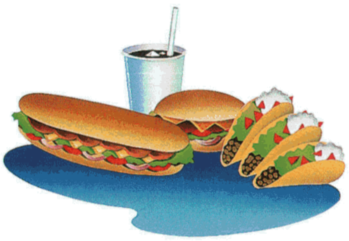
Corner Store with Subway Shop

National Convenience Store merger. Our acquisition of 661 Stop N Go stores in December 1995 catapulted Diamond Shamrock into the position of largest marketer of gasoline in Texas and number 13 in the nation. We also became the largest convenience store operator in Texas and number 10 nationwide.

Advanced Gasolines introduced into market. Our new Advanced Gasolines contain top-of-the-line detergent additives that place them with other leading marketers in cleaning power.

Diamond Shamrock gasoline at Stop N Go

Highlights—1995 and beyond



Branded fast food debuts in Corner Stores.
Diamond Shamrock is capitalizing on a fast-growing industry marketing trend by installing company-owned Subway and Taco Bell franchises in select stores. Customer counts have increased, and overall merchandise sales are up in stores that have franchises.

1995 Convenience Store Chain of the Year.
Convenience Store Decisions magazine gave this prestigious award to Diamond Shamrock for best exemplifying excellence in customer service, marketing innovation, operating efficiency, management effectiveness, community involvement, image enhancement, and sales and profit performance.

while re-identifying the gasoline operation to the Diamond Shamrock Sterling image, which is a symbol of quality gasoline. Because all the Stop N Go stores are located in cities where we have retail division offices, we will take advantage of significant administrative cost savings.

"Diamond Shamrock is capitalizing on NCS' merchandising strength by having a number of key NCS personnel play a lead role in our merchandising operation, and we will initiate a much stronger merchandise category management approach. We plan to increase the branded food presence in our stores.

"In the spring of 1996 we will introduce our discount, fee-based Preferred Gold credit card, and we have even greater opportunities now to grow the Fleet Card. Also, we are planning an expanded and more profitable financial services program with banking ATMs and other services offered in stores, and the telecommunications field offers new revenue-producing opportunities.

"Our philosophy remains the same: to focus on the customer. We will continue to provide quality, value, and a pleasant shopping experience for our patrons."

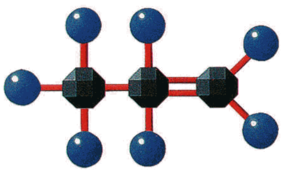
Valley Shamrock Branded Outlet

Highlights —1995 and beyond

High octane upgrade. Our upgrade to higher-octane gasoline in 1995 promotes Diamond Shamrock's quality image by helping high-performance vehicles run smoothly — and also secures our marketing objective to be competitive and meet the highest octane standard in each market.

First Corner Store opens in Arizona. In December we opened a 24-hour store in Mesa, Arizona. At year end, three other sites were under construction in Mesa along with 21 sites under contract in the Phoenix and Tucson metropolitan areas.

Fleet Card has record growth. The program realized a 12.4 percent growth over last year, which represents about 9 percent of all credit card sales. Last year Diamond Shamrock was one of the successful contract awardees for the State of Texas to provide fuel to state agencies.



Record earnings and expansion of propane/propylene splitter. The splitter at Mont Belvieu achieved both record earnings and record volumes in 1995. A second splitter to be completed in 1996 will double Diamond Shamrock's propylene capacity to one billion pounds per year.

Record volumes in NGL business. A record volume of natural gas liquids and olefins flowed through Mont Belvieu in 1995. We added and enhanced equipment to accommodate the higher flows. The company also purchased four wells and drilled a new brine production well for a total of 30 wells with 77 million barrels of permitted storage.

Major gas find in Bolivia. Drilling the Nupuco-X101, a joint venture exploratory well in southern Bolivia, resulted in a major gas discovery with proved reserves of 67 BCF. A 28-mile pipeline connecting the new gas field to the company's Porvenir Field and gas processing plant is now complete, and production should begin in the first half of 1996.

Record growth for North American InTeleCom. NAI installed 1,012 pay phones in 1995, an increase of 34.8 percent over 1994 — for a total of 8,134 pay phones the company manages and operates.

"Diamond Shamrock's second propylene splitter under construction at Mont Belvieu is an important part of our strategy; we expect the splitter, scheduled to start operations in third quarter 1996, to make a significant contribution to future earnings of our petrochemical business. A key element in doubling our splitter capacity is that we will operate at a lower cost per pound and thus be more profitable on a per-pound basis.

"Over the next few years we project that the volume of NGL products coming through Mont Belvieu will grow significantly. In 1995 we began a concentrated effort to debottleneck our facilities so that we can handle this higher volume of products for our customers.

(Left to right) John Coffey, Joe Casas, and Wade Marcontell, Mont Belvieu control room

Mont Belvieu Propane/Propylene Splitter

"In Bolivia our 75 percent-owned company has a new natural gas discovery with proved reserves of 67 billion cubic feet. In Argentina we have a one-third interest in a company that is converting its small refinery into asphalt and solvents production, rapidly growing its branded gasoline retail business, and evaluating petrochemical opportunities."

Allied Businesses at a glance

Diamond Shamrock's allied businesses leverage our core refining and marketing expertise to increase corporate earnings.

Our Mont Belvieu operation is the world's largest commercial underground natural gas liquids storage facility with 77 million barrels of permitted storage. Also located at the facility is a jointly owned world-class propylene splitter that produces polymer grade propylene for the petrochemical industry; a second splitter is scheduled to start up in mid-1996. A propylene export facility is connected by pipeline to the Mont Belvieu operation and to other propylene producers.

Nitromite Fertilizer, an Amarillo-based business, has two ammonia plants at our McKee refinery, which produce 450 tons of anhydrous ammonia per day.

North American InTeleCom (NAI) both manages and provides pay phones to convenience stores and other businesses as well as inmate telephone services for correctional institutions.

Diamond Shamrock markets various natural gas liquids, and we have interests in international petroleum operations in Bolivia and Argentina that include an exploration/production company and a publicly traded refining and marketing company.

The company's Corner Store Mexico business has 10 convenience store locations in conjunction with Pemex gasoline stations in five cities in Mexico.

Operations employees' safety achievements. In 1995, Mont Belvieu plant employees achieved 2.5 years without a lost time accident; employees at McKee completed 1 year without a lost time accident; and at Three Rivers, employees reached 2.25 years without a lost time accident.

Other groups with no lost-time accidents were North American InTeleCom, Integrated Product Systems, and Flight Operations. The San Antonio retail division reduced its accident frequency rate by 70 percent, and the Houston division has cut its accident frequency rate in half since 1991.

Client server initiative. Using desktop personal computers linked to local area networks, the system makes information more accessible to employee decision-makers, gives us flexibility to develop new applications, and reduces costs.

Volunteerism and corporate contributions. In 1995, we achieved a new record for United Way gifts, and many other organizations benefited from corporate giving as well as employee volunteers' time.

Our quarterly challenge grants made a significant impact in the communities we serve, and the company's "Air Q" campaign helped the public in San Antonio, Corpus Christi, and Austin better understand measures that are needed to improve the environment.

Diamond Shamrock "Home Page." To better serve our shareholders and the investment community, we established an Internet "Home Page" in first quarter 1996. The address is www. diasham.com.

CORPORATE RESPONSIBILITY

Tim Fretthold

"We take our responsibility to shareholders, customers, suppliers, and communities very seriously — and we will continue to operate in an ethical, safe, and environmentally sound manner to maintain or improve the quality of life for those within the company's sphere of operations.

"The total quality process and empowerment continue to be a strong focus, as every employee's ideas are important to Diamond Shamrock's success.

"Because employees own approximately 15 percent of the company, we all have a high stake

El Paso Operation Desert Sweep

Senior Vice President

Linda Bookout in mentoring session, Houston

in Diamond Shamrock's profitability and growth. The company will rely on employee commitment even more in the future as we face greater challenges and broader issues."

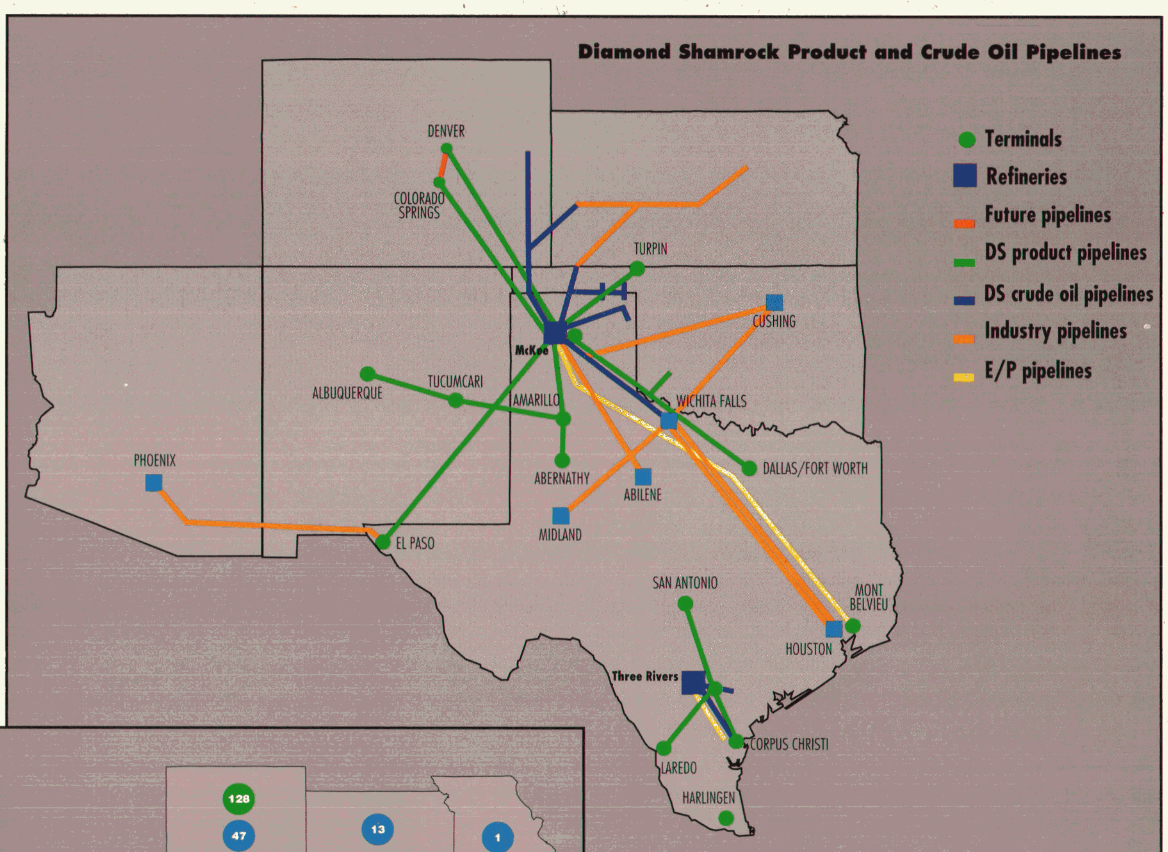
Corporate Responsibility at a glance

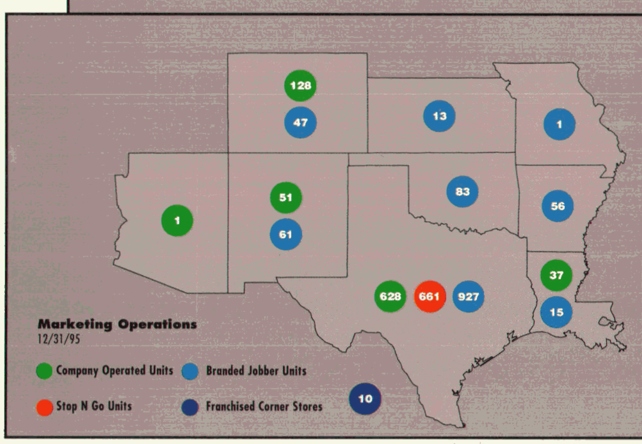
Diamond Shamrock endeavors to be a responsible corporate citizen in all of the company's operations and relationships. We also strive to be an industry example of environmental initiative and compliance, utilizing advanced technology in environmental protection.

The company provides more than 10,000 employees a safe, healthy work environment that encourages open communication and empowerment. Our employees' participation in and commitment to the quality process are crucial to the company's strategic growth.

We remain committed to improving the quality of life and the well-being of the people in our communities through involvement with the United Way and numerous other non-profit organizations, mentoring programs, and environmental projects.

Diamond Shamrock is an equal opportunity employer that values, respects, and develops every employee without regard to race, color, religion, gender, disability, national origin, or veteran status and ensures freedom from any kind of harassment. The company culture embodies our vision statement, which includes in part to grow and win by focusing on the customer, encouraging each employee's ideas and participation, out-performing competition, being ethical, and having fun.





Diamond Shamrock Operations

Diamond Shamrock, Inc.

Corporate Headquarters
9830 Colonnade Boulevard
P.O. Box 696000
San Antonio, Texas 78269-6000

RESULTS OF OPERATIONS

Consolidated Results 1995 vs 1994

Sales and operating revenues for 1995 were $2,936.8 million compared to $2,606.3 million in 1994. Sales and operating revenues increased primarily due to a 5.5% and a 4.8% increase in refined product sales volumes and prices, respectively, and a 9.9% and a 3.2% increase in retail gasoline sales volumes and prices, respectively. This increase also reflected the contribution from a 7.0% increase in the average number of retail outlets during 1995. Per store retail merchandise sales and retail gasoline sales volumes increased 5.1% and 2.7%, respectively, during 1995 when compared to 1994. Also contributing to the increase in consolidated sales and operating revenues was a 20.6% increase in sales in the Company's Allied Businesses segment, primarily due to the strong demand for polymer grade propylene and ammonia fertilizer. In addition, the acquisition of National Convenience Stores Incorporated ("NCS") in mid-December 1995, contributed $35.2 million in sales and operating revenues.

During 1995, the Company had net income of $47.3 million compared with $75.8 million in 1994. The Company's 1995 results were negatively impacted by weak refining margins in the inland markets where the Company sells most of its products. Refining margins improved somewhat later in the fourth quarter of 1995 due largely to heating oil price increases driven by cold weather; however, increases in the cost of gasoline could not be recovered at the retail level. Partially offsetting weak refining margins were strong results for polymer grade propylene and ammonia fertilizer due to improved demand.

A major portion of the Company's inventory is valued at the lower of last-in, first-out (LIFO) cost or market. At December 31, 1995, inventories of crude oil and refined products of the Refining and Wholesale segment and propylene products in the Allied Businesses segment were valued at market (lower than LIFO cost). Motor fuel products of the Retail segment were recorded at their LIFO costs. Estimating the financial impact of changes in the valuation of refinery inventories due to such inventories being valued at market is difficult because of the number of variables that must be considered. For operating purposes, management attempts to estimate the impact of changes in valuation of refinery inventories on net income. The estimated after tax change in inventory values was a positive $5.2 million and $7.3 million in 1995 and 1994, respectively.

Consolidated Results 1994 vs 1993

Sales and operating revenues for 1994 were $2,606.3 million compared to $2,555.3 million in 1993. Sales and operating revenues increased primarily due to a 6.4% increase in refined product sales volumes, a 6.4% increase in retail merchandise sales and an improvement in revenues in the Allied Businesses segment.

During 1994, the Company had net income of $75.8 million compared with income before cumulative effect of accounting changes of $32.6 million and net income of $18.4 million in 1993. The Company's integrated business approach contributed significantly to the Company's profitability during 1994. The Refining and Wholesale segment was supported by strong refining margins in the first half of 1994. Then, as refining margins narrowed, the Company had excellent results from the Retail segment, reflecting improved retail margins in the second half of 1994. The Allied Businesses segment provided significant operating profit improvements throughout 1994, reflecting a general improvement in the petrochemical business and strong demand for ammonia fertilizer. The estimated after tax change in inventory values was a positive $7.3 million in 1994 and a negative $16.5 million in 1993.

Segment Results 1995 vs 1994

Sales and operating revenues from the Refining and Wholesale segment were $1,435.8 million compared to $1,320.8 million in 1994. The increase is primarily due to a 5.5% and a 4.8% increase in refined product sales volumes and prices, respectively.

Preferred Stock during the time that the shares are outstanding. The computation of fully diluted earnings (loss) per share for the year ended December 31, 1993, did not assume conversion of the Preferred Stock because the effect would have been antidilutive.

Other Postemployment Benefits

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 112 ("FAS 112"), "Employers' Accounting for Postemployment Benefits, an Amendment of FASB Statements No. 5 and 43." FAS 112 addresses the accounting for compensation for future absences and postemployment benefits provided to former or inactive employees that are not provided as part of a pension or postretirement plan. The adoption of the new standard had no material effect on the results of operations and did not require recording any cumulative effect of adoption of a change of accounting method.

Note 3 — CHANGES IN ACCOUNTING PRINCIPLES

At December 31, 1989, the Company recorded a liability for payments to be made pursuant to the Distribution Agreement (the "Distribution Agreement") with Maxus, the Company's former parent, for certain liabilities relating to businesses of Maxus discontinued or disposed of prior to the date on which the Company was spun off to Maxus shareholders. The Company's total liability under the Distribution Agreement is limited to $85.0 million. At December 31, 1989, the Company believed that it would be required to make payments under the Distribution Agreement beginning in 1991 and continuing for approximately ten or more years. The Company did, in fact, begin to make payments in 1991, and, based on current levels of payments, it is expected that payments will continue until 1997.

Inasmuch as the total amount of the liability was known ($85.0 million) and the Company believed the timing and amount of the payments could be estimated with reasonable accuracy, the liability at December 31, 1989 was recorded on a discounted basis, in accordance with the accounting rules in existence at the time. Annual additions to the liability had been recorded as interest through December 31, 1992.

During June 1993, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") released the minutes of its May 20, 1993 meeting during which the EITF announced a consensus with regard to certain issues of "Accounting for Environmental Liabilities" (Issue 93-5). The consensus effectively changed the criteria for determining when a liability may be recorded on a discounted method. Consequently, in 1993, the Company changed the accounting method for recording its liability under the Distribution Agreement to reflect the entire unpaid amount rather than the discounted amount of the liability.

The change of method was recorded as if the change had occurred on January 1, 1993 and is reflected in the Consolidated Statement of Operations as the Cumulative Effect of Accounting Changes for the twelve months ended December 31, 1993. The amount of $14.2 million represented the unrecorded liability of $23.6 million at December 31, 1992, less related tax benefit of $9.4 million.

The following pro forma information is provided to reflect the earnings per share amounts which would have been reported had the undiscounted accounting method for recording the liability been adopted in the year the liability was originally recorded.

	1995	1994	1993
Pro forma Primary Earnings (Loss) Per Share Before Cumulative Effect of Accounting Changes	$ 1.48	$ 2.45	$ 1.04
Cumulative Effect of Accounting Changes	–	–	–
Total	$ 1.48	$ 2.45	$ 1.04
Pro forma Fully Diluted Earnings (Loss) Per Share Before Cumulative Effect of Accounting Changes	$ 1.46	$ 2.34	$ 1.04
Cumulative Effect of Accounting Changes	–	–	–
Total	$ 1.46	$ 2.34	$ 1.04

Earnings per share as currently reported:

	1995	1994	1993
Primary Earnings (Loss) Per Share Before Cumulative Effect of Accounting Changes	$ 1.48	$ 2.45	$ 1.04
Cumulative Effect of Accounting Changes	–	–	(0.49)
Total	$ 1.48	$ 2.45	$ 0.55
Fully Diluted Earnings (Loss) Per Share Before Cumulative Effect of Accounting Changes	$ 1.46	$ 2.34	$ 1.04
Cumulative Effect of Accounting Changes	–	–	(0.49)
Total	$ 1.46	$ 2.34	$ 0.55

Effective January 1, 1993, the Company adopted FAS 112, "Employers' Accounting for Postemployment Benefits, an Amendment of FASB Statements No. 5 and 43." FAS 112 addresses the accounting for compensation for future absences and for postemployment benefits provided to former or inactive employees that are not provided as part of a pension or postretirement plan. The adoption of the new standard had no material effect on the results of operations and did not require recording any cumulative effect of adoption of a change of accounting method.

The Company plans to adopt Statement of Financial Accounting Standards No. 121 ("FAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," in 1996. While the Company has not completed its calculations on the effects of FAS 121, it does not expect adoption of FAS 121 will have a material impact on its results of operations or financial position.

The Company plans to adopt Statement of Financial Accounting Standards No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation," in 1996, and plans to elect to adopt FAS 123 by providing the disclosure information regarding its stock-based compensation plans as allowed by FAS 123. Accordingly, adoption of FAS 123 is not expected to have a significant effect on the Company's results of operations or financial position.

Note 4 — ACQUISITION

On December 14, 1995, the Company completed the acquisition of National Convenience Stores Incorporated ("NCS"). NCS operates 661 "Stop N Go" convenience stores located in Texas, of which 600 sell gasoline. The total value of the transaction, including transaction costs and the assumption of NCS's debt, is approximately $280.0 million. The acquisition has been accounted for under the purchase method and, accordingly, the operating results of NCS have been included in the consolidated operating results since the date of the acquisition.

The funds used to acquire NCS were arranged through Bank of America National Trust and Savings Association. The purchase price exceeded the estimated fair value of net assets acquired by approximately $160.5 million, which is included in the accompanying consolidated balance sheet as excess of cost over acquired net assets, net of amortization. This asset is being amortized over its estimated useful life of 20 years.

In arriving at the purchase cost of the acquisition and, consequently, the excess cost over acquired net assets, the company evaluated, among other things, various analyses of cash flow and profitability projections including, as applicable, the impact on existing Company businesses. Such analyses necessarily involve significant management judgment to evaluate the capacity of the acquired business to perform within projections.

The pro forma statements listed below combining the results of operations of the Company and NCS are unaudited and reflect purchase price accounting adjustments assuming the acquisition occurred at the beginning of each year presented.

	1995	1994
Revenues	$ 3,659.8	$ 3,350.7
Income before tax provision	67.8	115.3
Net Income	40.6	$ 66.2
Primary Earnings Per Common Share	$ 1.25	$ 2.13
Fully Diluted Earnings Per Common Share	$ 1.25	$ 2.04

Note 5 — BUSINESS SEGMENTS

The Company's revenues from continuing operations are principally derived from three business segments: Refining and Wholesale, Retail, and Allied Businesses. Refining and Wholesale is engaged in crude oil refining and wholesale marketing of refined petroleum products. Retail is engaged in selling refined petroleum products and other merchandise. Allied Businesses is engaged in transporting, storing, and marketing natural gas liquids; upgrading refinery grade propylene and selling polymer grade propylene; selling ammonia fertilizer; selling specialized telephone services; selling environmental testing and related services; and investing in petroleum related opportunities.

The Company's business segments operate primarily in the Southwest region of the United States with particular emphasis in Texas, Colorado, Louisiana, New Mexico, and Oklahoma.

	Refining and Wholesale	Retail	Allied Businesses	Total
1995				
Sales and operating revenues	$1,435.8	$1,125.6	$375.4	$2,936.8
Costs and expenses	1,350.0	1,070.0	327.3	2,747.3
Operating profit	$ 85.8	$ 55.6	$ 48.1	189.5
Interest expense				47.4
Administrative expense				68.4
Income before tax provision				$ 73.7
1994				
Sales and operating revenues	$1,320.8	$ 974.3	$311.2	$2,606.3
Costs and expenses	1,174.0	915.4	285.2	2,374.6
Operating profit	$ 146.8	$ 58.9	$ 26.0	231.7
Interest expense				43.3
Administrative expense				62.6
Income before tax provision				$ 125.8
1993				
Sales and operating revenues	$1,294.8	$ 958.1	$302.4	$2,555.3
Costs and expenses	1,220.9	895.4	287.4	2,403.7
Operating profit	$ 73.9	$ 62.7	$ 15.0	151.6
Interest expense				40.6
Administrative expense				53.5
Income before tax provision and cumulative effect of accounting changes				$ 57.5

Intersegment sales and operating revenues are generally derived from transactions made at prevailing market rates. Sales of refined petroleum products from the Refining and Wholesale segment to the Retail segment amounted to $592.4 million in 1995, $502.7 million in 1994, and $510.1 million in 1993. Sales of natural gas liquids from the Allied Businesses segment to the Refining and Wholesale segment amounted to $21.5 million in 1995, $15.8 million in 1994, and $23.4 million in 1993.

	Identifiable Assets 1995	1994	1993
Refining and Wholesale	$1,227.3	$1,048.2	$ 846.8
Retail	754.3	333.0	281.2
Allied Businesses	188.0	159.0	142.7
Corporate	75.8	80.6	78.5
	$2,245.4	$1,620.8	$1,349.2

Identifiable assets are those assets that are utilized by the respective business segment. Corporate assets are principally cash, investments, and other assets that cannot be directly associated with the operations or activities of a business segment.

Note 6 — TAXES

The Company's provision for income taxes was comprised of the following:

	1995	1994	1993
Current			
Federal	$ 16.2	$ 16.4	$ 21.8
State and local	1.3	1.7	3.5
	17.5	18.1	25.3
Deferred			
Federal	7.9	29.1	(0.3)
State and local	1.0	2.8	(0.1)
	8.9	31.9	(0.4)
	$ 26.4	$ 50.0	$ 24.9

Federal income taxes paid (net of refunds) during 1995, 1994, and 1993 were: $20.1 million, $11.0 million, and $21.5 million, respectively.

The principal reasons for the difference between the statutory federal income tax rate and the Company's provision for income taxes were:

	1995	1994	1993
Tax provision at statutory federal rate (35%)	$ 26.0	$ 45.6	$ 20.1
Effect of tax rate increase on deferred taxes	–	–	1.7
State income taxes, net of federal tax benefit	1.9	3.3	2.2
General business credit	(3.7)	(0.6)	(0.7)
Other, net	2.2	1.7	1.6
	$ 26.4	$ 50.0	$ 24.9

The components of the net deferred tax liability are summarized as follows:

	1995	1994
Deferred tax assets		
Inventory valuation reserves	$ 6.4	$ 10.5
Postretirement and pension plan liabilities	12.1	13.0
Long-term shared costs liability	2.8	7.1
Alternative minimum tax credit	19.2	16.0
Nonrecurring expenses in connection with acquisition	7.3	–
Environmental reserve	6.4	–
Insurance reserve	6.6	–
Operating loss carryforward	10.0	–
General business credit carryforward	13.6	0.9
Allowance for doubtful receivables	2.2	1.9
Miscellaneous other	24.7	12.2
	111.3	61.6
Deferred tax liabilities		
Properties and equipment	(133.1)	(119.4)
Inventory valuation reserve	(20.0)	(21.3)
Section 382 basis adjustment	(7.5)	–
Miscellaneous other	(2.7)	(2.4)
	(163.3)	(143.1)
Deferred tax asset valuation allowance	(5.0)	–
Net deferred tax liability	$ (57.0)	$ (81.5)

At December 31, 1995 the net deferred tax liability is reflected as $1.6 million in Current deferred tax assets and $58.6 million in Noncurrent deferred tax liabilities. At December 31, 1994, the entire amount of the net deferred tax liability was reflected as Noncurrent deferred tax liabilities.

In accordance with the provisions of SFAS No. 109, a valuation allowance of $5.0 million at December 31, 1995 is deemed appropriate by management in view of the expiration dates of the acquired net operating loss carryforwards and credit carryforwards and the amount of future taxable income necessary to utilize such losses and credits. The acquired net operating loss carryforwards and credit carryforwards are subject to the separate return limitation year (SRLY) rules. These rules limit the use of the acquired NCS operating loss carryforwards and credit carryforwards to offset the taxable income of NCS. In addition, the ownership change limitations under section 382 of the Internal Revenue Code further limit the utilization of the acquired loss carryforwards and credit carryforwards.

For federal income tax purposes at December 31, 1995, the Company estimated that it had $13.6 million of unused general business tax credits including an acquired general business tax credit of $7.4 million which expires in varying amounts if unused by the years 1998 to 2010. The remaining $6.2 million expires in 2009 and 2010. The Company also had an estimated $19.2 million of minimum tax credit available for carryforward with an indefinite expiration. There is an estimated $28.3 million of SRLY net operating loss carryforward from the NCS acquisition that expires in varying amounts if unused by the years 2001 to 2005. Some of the estimates may be affected by the federal income tax return of NCS for the fiscal year ended June 30, 1995 that will be filed during March of 1996.

Taxes other than income taxes were comprised of the following:

	1995	1994	1993
Real and personal property	$20.2	$ 18.1	$ 15.8
Payroll	10.6	11.6	11.2
Superfund	7.3	8.6	7.8
Other	1.6	1.6	1.9
	$39.7	$ 39.9	$ 36.7

Note 7 — EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans

The Company maintains a retirement plan known as the Career Average Retirement Income Plan (the "CARIP"). Under the CARIP, eligible employees acquire a right upon retirement to an annual amount equal to 2% of the employee's eligible earnings from February 1, 1987 to May 31, 1989, and 1% of the employee's eligible earnings from June 1, 1989 forward, plus a potential supplement under certain circumstances.

The Company also maintains a retirement plan for its collective bargaining groups (the "Bargaining Unit Plan"). The Bargaining Unit Plan generally provides benefits that are based on the union member's monthly base pay during the five years before retirement.

The Company also maintains a retirement plan referred to as the Retirement Income Plan (the "RIP") to cover certain employees not eligible for coverage under the CARIP or the Bargaining Unit Plan. Under the RIP, eligible employees acquire a right upon retirement to a monthly amount equal to $5 for each year of plan service from January 1, 1989 forward.

The Company also maintains a retirement plan referred to as the Excess Benefits Plan (the "Excess Benefits Plan"), which provides benefits in place of reductions of qualified benefits resulting from various statutory limitations imposed by the Internal Revenue Code and the deferral of compensation through the Deferred Compensation Plan.

In addition, the Company has adopted a Supplemental Retirement Plan (the "SRP"). The SRP provides additional benefits for executive officers in excess of amounts payable under the defined benefit plans of the Company or any predecessor employer.

The Company also provides a retirement plan for its non-employee Directors (the "Directors Retirement Plan"). The Directors Retirement Plan provides an annual retirement benefit for a period of time equal to the shorter of (a) length of service as a non-employee Director or (b) life of Director.

Net periodic pension cost included the following components:

	1995	1994	1993
Service cost-benefits earned during the period	$ 3.2	$ 3.4	$ 2.5
Interest cost on projected benefit obligation	3.2	2.8	2.2
Actual return on assets	(6.6)	0.2	(1.9)
Net amortization and deferral	4.7	(2.0)	0.5
Net periodic pension cost	$ 4.5	$ 4.4	$ 3.3

Significant assumptions used in the actuarial calculations were:

	1995	1994	1993
Discount rates	7.25%	8.50%	7.25%
Rates of increase in compensation level	4.50%	5.00%	4.50%
Expected long-term rate of return on assets	9.00%	9.00%	9.00%

The Company's trusteed plans are funded at amounts required by the Employee Retirement Income Security Act. Effective December 31, 1995, the Company lowered its discount rate to 7.25% and its rates of increase in compensation level to 4.50%.

The following table summarizes the funded status of the Company's defined benefit pension plans and the related amounts recognized in the Company's Consolidated Balance Sheet:

	1995		1994	
	Plans Where Assets Exceed Benefits	Plans Where Benefits Exceed Assets	Plans Where Assets Exceed Benefits	Plans Where Benefits Exceed Assets
Actuarial present value of benefit obligations:				
Vested benefit obligation	$ 27.5	$ 7.1	$ 12.3	$14.6
Accumulated benefit obligation	28.9	7.2	12.3	15.6
Projected benefit obligation	37.0	8.2	17.2	18.5
Plan assets at fair market value	32.4	6.2	13.9	12.3
Projected benefit obligation in excess of plan assets	4.6	2.0	3.3	6.2
Unrecognized net loss	(6.9)	(1.7)	(2.7)	(5.3)
Unrecognized net obligation	(0.3)	(0.2)	(0.3)	(0.2)
Unrecognized prior service cost	0.5	0.2	0.1	0.7
Adjustment to recognize minimum liability	0.0	0.6	0.0	2.1
Pension liability (Prepaid pension cost) recognized in the Consolidated Balance Sheet	(2.1)	0.9	0.4	3.5

In 1995, the plans where assets exceeded the accumulated benefit obligation were the Bargaining Unit Plan, the Retirement Income Plan, the Career Average Retirement Income Plan, and the Excess Benefits Plan. In 1994, the plans where assets exceeded the accumulated benefit obligation were the Bargaining Unit Plan and the SRP.

At December 31, 1995, Plan assets were invested in equity securities (58%), bonds (34%), and other investments (8%). At December 31, 1994, Plan assets were invested in bonds (58%), equity securities (33%), and other investments (9%).

Retiree Health Care and Life Insurance Benefits

The Company provides certain health care and life insurance benefits to eligible retirees. Employees who participate in the CARIP are eligible for retiree health care and life insurance benefits if they satisfy certain age and service requirements. The Company also shares in the cost of providing similar benefits to former Maxus employees pursuant to the Distribution Agreement (see Note 17).

Generally, the health care plans pay a stated percentage of most medical expenses reduced for any deductibles, payments made by government programs, and other group coverage. The cost of providing most of these benefits is shared with retirees. The plans are unfunded.

The following table sets forth the plans' status and the amount recognized in the Company's Consolidated Balance Sheet as of December 31, 1995 and 1994:

Accumulated postretirement benefit obligation attributable to:

	Health Care		Life Insurance		Total	
	1995	1994	1995	1994	1995	1994
Retirees	$20.9	$19.0	$3.2	$2.8	$24.1	$21.8
Fully Eligible Active Plan Participants	2.2	1.6	0.1	0.1	2.3	1.7
Other Active Plan Participants	5.6	3.3	2.7	3.2	8.3	6.5
Unrecognized net loss	(5.0)	(1.3)	(0.1)	(0.4)	(5.1)	(1.7)
Total Accumulated Postretirement Benefit Obligation	$23.7	$22.6	$5.9	$5.7	$29.6	$28.3

Net Periodic Postretirement Benefit Cost:

	Health Care		Life Insurance		Total	
	1995	1994	1995	1994	1995	1994
Service Cost of Benefits Earned	$0.3	$0.3	$0.1	$0.2	$0.4	$0.5
Interest Cost on Accumulated Postretirement Benefit Obligation	1.9	1.4	0.4	0.4	2.3	1.8
Net Periodic Postretirement Benefit Cost	$2.2	$1.7	$0.5	$0.6	$ 2.7	$ 2.3

The discount rate used in the actuarial calculation was 7.25% and 8.50% in 1995 and 1994, respectively. The rate of increase in compensation level was 4.50% and 5.00% in 1995 and 1994, respectively.

For measuring the expected postretirement benefit obligation, the health care cost trend rate ranged from 9.2% to 12.0% in 1995, grading down to an ultimate rate of 6.0% in the year 2000.

A one percentage point increase in the assumed health care cost trend would increase the aggregate of the service and interest components of 1995 net periodic postretirement benefit cost by $0.3 million and the 1995 accumulated postretirement benefit obligation by $3.4 million.

Long-Term Incentive Plans

In 1987 and 1990, and as amended in 1995, the Company adopted Long-Term Incentive Plans which are administered by the Compensation Committee of the Board of Directors to provide officers and key employees with stock options, stock appreciation rights ("SARs"), performance units, and securities awards. In May 1995, upon shareholder approval, the shares of Common Stock that may be issued under the plans were increased from 3,500,000 shares to 4,500,000 shares. The number of common shares issued or transferred as restricted shares that become non-forfeitable solely contingent upon the participant having a certain length of service with the Company shall not, in aggregate, exceed 314,000 Common Shares. At December 31, 1995, 1994, and 1993, Common Stock reserved for future grants under the Long-Term Incentive Plans were 1,601,425 shares, 966,213 shares, and 1,195,868 shares, respectively. In 1994 all SARs were exercised and no SARs have been granted since that time.

Transactions in stock options are summarized as follows:

	1995	1994	1993
Outstanding at January 1,	878,419	810,587	746,934
Granted	277,500	248,447	367,461
Exercised	(66,651)	(172,533)	(206,957)
Cancelled upon exercise of SARs	–	(6,042)	(84,979)
Forfeited	(1,876)	(2,040)	(11,872)
Outstanding at December 31,	1,087,392	878,419	810,587
Exercisable at December 31,	572,662	293,737	283,285
Range of exercise prices of options outstanding at December 31,	$ 11.31 to 29.75	$ 11.31 to 29.75	$ 11.31 to 27.38
Range of exercise prices of options exercised	$ 11.31 to 23.75	$ 11.31 to 25.63	$ 11.31 to 22.57

Grants of restricted, performance restricted stock and performance units for 1995, 1994, and 1993 are summarized as follows:

Date Granted	Shares Restricted	Shares Performance Restricted	Performance Units
February 1993	40,568	63,414	
December 1993	24,235	–	
February 1994	16,450	–	1,639,000
February 1995	44,715	–	1,694,000
July 1995	–	–	456,800

All shares of performance restricted stock granted became non-restricted on October 1, 1995 when certain financial goals were met.

The restricted stock vests over a four-year period through 1999. Deferred compensation equivalent to market value at the date of grant is recorded to additional paid-in capital and is amortized to compensation expense over the vesting period. The amount amortized in 1995, 1994, and 1993 was $1.6 million, $2.1 million, and $2.1 million, respectively. Unvested shares are restricted as to transfer or sale.

Performance Units have a target value of $1.00, but based on the Company's performance, each unit may have an actual value ranging from $0.00 to $2.00 at the end of the three year performance cycle. The cycles begin on January 1, and end on December 31. Any distributions will occur during the first quarter following the three year performance cycle. Performance units granted in 1994 will be paid two thirds in the form of cash and one third in the form of non-restricted stock. Performance units granted in 1995 will be paid in cash. The amount accrued in 1995 and 1994 was $1.2 million and $0.5 million, respectively.

Performance Incentive Plan

A Performance Incentive Plan has been adopted by the Company, under which the Compensation Committee may grant cash awards to eligible employees. For Plan years 1995, 1994, and 1993, the Company paid $2.4 million, $2.7 million, and $2.3 million, respectively.

Employee Stock Ownership Plans (ESOPs)

The Company maintains two Employee Stock Ownership Plans. ESOP I was formed in June 1987, and ESOP II was formed in April 1989 (ESOP I and ESOP II are collectively referred to as the "ESOPs"). Between 1987 and 1991, the Company loaned ESOP I $34.5 million which it used to purchase 2,052,207 shares of Common Stock.

Between 1989 and 1991, $31.3 million was loaned by the Company to ESOP II which it used to purchase 1,466,957 shares of Common Stock.

In 1992 and 1991, the Company contributed 37,400, and 45,000 treasury shares of Common Stock, respectively, to ESOP I as part of special award programs and a success sharing program. In accordance with the success sharing program, the Company accrued $1.5 million, $2.8 million and $1.3 million for the purchase of 55,523 shares, 107,681 shares and 31,668 shares in 1995, 1994 and 1993, respectively.

All employees of the Company who have attained a minimum length of service and satisfied other plan requirements are eligible to participate in the ESOPs, except that ESOP II excludes employees covered by any collective bargaining agreement with the Company.

The Company will make contributions to ESOP I and ESOP II in sufficient amounts, when combined with dividends on the Common Stock, to retire the principal and interest on the loans used to fund the ESOPs (see Note 13). Common shares will be allocated to participants as the payments of principal and interest are made on the loan. Contributions to the ESOPs charged to expense for 1995, 1994, and 1993 were $7.5 million, $7.4 million, and $7.1 million, respectively. Dividend and interest income reduced the amounts charged to expense in 1995, 1994, and 1993 by $1.5 million, $1.8 million, and $1.8 million, respectively.

The number of allocated shares held by ESOP I and ESOP II at December 31, 1995, were 1,822,383 shares and 360,226 shares, respectively. The number of suspense shares held by ESOP I and ESOP II at December 31, 1995, were 284,489 shares and 1,056,497 shares, respectively.

Note 8 — RECEIVABLES

	1995	1994
Notes and accounts receivable	$ 220.1	$ 217.4
Less—Allowance for doubtful receivables	7.1	5.8
	$ 213.0	$ 211.6

The following is a summary of the changes in the allowance for doubtful receivables :

	1995	1994	1993
January 1,	$ 5.8	$ 5.5	$ 4.2
Additions charged against earnings	9.6	3.2	2.3
Write-offs, net of recoveries	(8.3)	(2.9)	(1.0)
December 31,	$ 7.1	$ 5.8	$ 5.5

Note 9 — INVENTORIES

	1995	1994
Finished products	$ 204.1	$ 109.6
Raw materials	137.4	148.3
Supplies	34.5	33.1
	$ 376.0	$ 291.0

The cost of approximately 64% and 74% of total inventories was determined under the LIFO method at December 31, 1995 and 1994, respectively. At December 31, 1995 and 1994, market was lower than LIFO cost by $16.0 million and $27.1 million, respectively.

The Company acquires a major portion of its crude oil requirements through the purchase of futures contracts on the New York Mercantile Exchange. The Company also uses the futures market to manage the price risk inherent in purchasing the crude oil in advance of the delivery date, and in maintaining the inventories contained within its refinery and pipeline systems.

Note 10 — PROPERTIES AND EQUIPMENT

	1995	1994
Properties and Equipment		
Refining and Wholesale	$1,238.5	$1,024.4
Retail	562.5	369.5
Allied Businesses	203.4	206.8
Corporate	36.9	34.7
	2,041.3	1,635.4
Less—Accumulated depreciation	684.2	609.3
	$1,357.1	$1,026.1

The charge against earnings for maintenance and repairs was $40.1 million in 1995, $41.1 million in 1994, and $29.3 million in 1993. Interest capitalized was $6.8 million in 1995, $2.3 million in 1994, and $6.1 million in 1993.

	Expenditures for Properties and Equipment		
	1995	1994	1993
Refining and Wholesale	$ 193.0	$ 89.3	$ 100.1
Retail	362.4	49.3	26.5
Allied Businesses	21.2	22.3	4.4
Corporate	1.5	1.2	0.8
	$ 578.1	$ 162.1	$ 131.8

The amount in the table above in the Retail segment for 1995, includes expenditures for the acquisition of NCS.

	Depreciation		
	1995	1994	1993
Refining and Wholesale	$ 43.3	$ 38.3	$ 35.1
Retail	20.4	16.3	14.6
Allied Businesses	11.4	13.1	11.7
Corporate	2.6	3.2	2.9
	$ 77.7	$ 70.9	$ 64.3

Note 11 — ACCRUED LIABILITIES

	1995	1994
Accrued Taxes	$ 71.0	$ 65.3
Accrued Insurance	6.8	–
Accrued Royalties	6.6	6.7
Current Portion of Long-term Shared Costs Liability (see Note 17)	8.0	8.0
Other Liabilities	115.6	90.9
	$ 208.0	$ 170.9

Note 12 — OTHER LIABILITIES AND DEFERRED CREDITS

	1995	1994
Post Retirement Benefit	$ 28.3	$ 28.3
Long-term Shared Costs Liability (see Note 17)	2.1	13.4
Deferred Credits	10.3	11.8
Environmental Reserve	18.9	–
Insurance Reserve	10.8	–
Other Liabilities	44.7	13.5
	$ 115.1	$ 67.0

Note 13 — LONG-TERM DEBT

	1995	1994
Commercial Paper	$ 0.0	$ 0.0
10.75% Senior Notes	120.0	150.0
9% Senior Notes	5.3	8.4
8.77% Senior Notes	30.0	30.0
8.35% Senior Notes	1.2	1.9
Medium Term Notes	145.0	145.0
Shamrock Pipeline Note	6.2	–
Pollution Control Financings	10.9	10.9
7.25% Debentures	25.0	–
Credit Facility	220.0	–
8% Debentures	100.0	100.0
8.75% Debentures	75.0	–
Bank Money Market Facilities	163.0	66.9
Mortgages	59.3	–
Other Notes	3.8	0.0
	964.7	513.1
Less—Due within one year	7.2	3.9
	$ 957.5	$ 509.2

The aggregate maturities of the long-term debt obligations at December 31, 1995 for the next five years will be as follows, assuming no prepayments: 1996-$7.2 million; 1997-$37.9 million; 1998-$36.2 million; 1999-$145.4 million; 2000-$120.9 million; and all future periods-$611.1 million.

On February 29, 1996, the Company exercised an early redemption option to redeem 11.75% $4.4 million in Palo Duro River Authority Revenue Bonds at par value.

On February 13, 1995, the Company issued $75.0 million in non-callable 8.75% debentures due June 15, 2015.

In March and December 1995, the Company renegotiated its two separate revolving credit facilities ("Agreement I" and "Agreement II"). Agreement I has a face value of $200.0 million with a maturity date of March 31, 2000. Agreement II matures on March 29, 1996, and has a value of $100.0 million. Interest under Agreement I and Agreement II varies depending on specified lending options available to the Company. Generally, the variable conditions relate to the prime rate, certificates of deposit, and London Interbank Offered Rates, as adjusted upward by specified percentages. As of December 31, 1995, the Company had no borrowings outstanding under Agreement I or Agreement II.

Agreement I and Agreement II, the Senior Notes and the B of A Credit Facility (as defined below) all contain various restrictive covenants relating to the Company and its financial condition, operations, and properties. Under these covenants, the Company is required to maintain a minimum current ratio and net worth. These covenants also include restrictions on the payment of dividends. However, it is not anticipated that such limitations will affect the Company's present ability to pay dividends. At December 31, 1995, under the most restrictive of these covenants, $205.7 million was available for the payment of dividends.

In May 1995, the Company registered $150.0 million of unallocated securities in a Universal Shelf Registration. That registration, which was declared effective by the Securities and Exchange Commission in June 1995, allows the Company to issue up to $150.0 million of debt, equity, or warrants, or any combination thereof, to the public on terms to be set at the time of issuance. The Company will issue the securities so registered from time to time, based on the Company's capital requirements and market conditions.

On June 8, 1995, the Company issued $25.0 million in non-callable 7.25% debentures due June 15, 2010. The proceeds from the issuance of the debentures were used for general corporate purposes.

On October 17, 1995, $6.2 million (the "Shamrock P/L Note") was assumed when the Company purchased the lessor's interest in the Southlake Products Pipeline extending from the McKee Refinery to the Dallas/Fort Worth area. The Shamrock P/L Note is currently being amortized semiannually at 9.75% with a maturity date of January 15, 1999.

During December 1995, the Company entered into a Revolving Credit Agreement (the "B of A Credit Facility") with a syndication of banks to finance the acquisition of NCS. The Credit Facility is a revolving facility under which up to $220.0 million may be advanced and readvanced from time to time for general corporate purposes. Credit available under the B of A Credit Facility is reduced by equal amounts on four reduction dates: June 11, 1999, December 11, 1999, June 11, 2000 and at maturity on December 11, 2000. Interest under the B of A Credit Facility is structured similar to Agreement I and Agreement II. As of December 31, 1995, the Company had $220.0 million outstanding under the B of A Credit Facility.

On December 14, 1995, the Company assumed $53.3 million in mortgages (the "Mortgages") as part of the NCS acquisition. The Mortages currently carry an annual interest rate of 9.5% with average maturities of 7 years and are recorded at their net present value of $59.3 million. The mortgages are secured by retail properties owned by the Company.

Outstanding bank money market facilities are reflected as long-term debt because the Company has the intent and ability either to roll over the debt as it becomes due or to convert such borrowings into long-term debt through revolving credit borrowings.

At December 31, 1995, the Company had outstanding $163.0 million of borrowings under bank money market facilities provided by major money center banks at a weighted average annual rate of 6.05%. The bank money market facilities are uncommitted lines of credit under which banks extend unsecured short-term credit to the Company from time to time at market rates.

Agreement I and Agreement II, the Senior Notes, and the B of A Credit Facility are unsecured. Certain subsidiaries of the Company have unconditionally guaranteed the repayment of all indebtedness and the performance of all obligations incurred by the Company under Agreement I and Agreement II, the Senior Notes, and the B of A Credit Facility.

On January 6, 1994, the Company prepaid the $35.0 million balance on its $65.0 million Term Loan Agreement (the "Term Loan").

During February 1993, the Company issued $46.0 million in medium-term notes with an average rate of 7.44% and average maturities of 12 years.

On April 1, 1993, the Company issued $100.0 of 8% Debentures due April 1, 2023.

On February 27, 1991, the Company issued $75.0 million of 9-3/8% Notes due March 1, 2001 (the "Notes") under its medium-term note program.

In December 1991, the Company issued $24.0 million in various notes with an average rate of 8.45% and maturities of 12 years.

In connection with the Spin-off, the Company sold $150.0 million of 11% Subordinated Notes due April 30, 1999, (the "11% Subordinated Notes") to institutional investors. On July 14, 1989, the original 11% Subordinated Notes became 10.75% Senior Notes (the "10.75% Senior Notes") after certain contractual conditions were met. On May 1, 1995, the Company repaid $30.0 million of its 10.75% Senior Notes in a scheduled installment, leaving an outstanding balance of $120.0 million. Of this balance, $30.0 million is payable within one year. Since the Company intends to refinance the scheduled repayment by the use of commercial paper or other credit facilities which would be classified as long-term, and the Company has the capacity to do so, the current portion of the long-term debt payable on April 30, 1996 has been classified as long-term debt.

Subsequent to the Spin-off, the Company placed $25.0 million of 9% Senior Notes due 1987-1997 (the "9% Senior Notes") and $5.0 million of 8.35% Senior Notes due 1989-1997 (the "8.35% Senior Notes") with an institutional investor and loaned the proceeds to the ESOP I (see Note 7). In 1989, the Company placed $30.0 million of 8.77% Senior Notes due 1997-2009 (the "8.77% Senior Notes") with the same institutional investor and loaned the proceeds to the ESOP II (see Note 7).

Cash payments of interest for 1995, 1994, and 1993 were $49.6 million, $42.9 million, and $41.3 million, respectively.

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt is estimated to be $1,028.2 million at December 31, 1995, including amounts payable within one year.

Note 14 — PREFERRED STOCK

In June 1993, the Company issued 1.725 million shares of 5% Cumulative Convertible Preferred Stock (the "Preferred Stock") in a private placement for an aggregate of $86.3 million, before discounts and transaction costs. The issue was priced at $50 per share with a dividend rate of 5 percent. The Preferred stock became convertible into the Company's Common Stock on September 8, 1993, at an initial conversion price of $26.50 per share. After June 15, 1996, the Preferred Stock is redeemable at the Company's option, subject to certain conditions, for Common Stock, and after June 15, 2000, it is redeemable at par for cash, at the Company's option.

Note 15 — STOCKHOLDERS' EQUITY

	Common Stock	Paid-In Capital	Retained Earnings	ESOP Stock	Treasury Stock
January 1, 1993	$ 0.3	$ 356.8	$ 131.5	$ (51.6)	$ (1.3)
Net Income			18.4		
Cash dividends:					
Common ($0.52 per share)			(15.0)		
Convertible Preferred ($1.28 per share) (See Note 14)			(2.2)		
Issuance of Key Employees' and Directors' stock	0.0	1.4			0.9
Payment on ESOP note				4.3	
Purchase of treasury stock					(0.6)
Issuance of Convertible Preferred stock*		84.3			
Adjustment of minimum liabilities of pensions			(1.8)		
Tax benefit of ESOP dividends			0.4		
Tax benefit of stock options		0.4			
Options exercised	0.0	1.9	(0.8)		0.4
December 31, 1993	0.3	444.8	130.5	(47.3)	(0.6)
Net Income			75.8		
Cash dividends:					
Common ($0.53 per share)			(15.4)		
Convertible Preferred ($2.50 per share) (See Note 14)			(4.3)		
Issuance of Key Employees' and Directors' stock	0.0	0.0			(0.1)
Payment on ESOP note				5.1	
Purchase of treasury stock					(3.4)
Adjustment of minimum liabilities of pensions			0.8		
Success sharing	0.0	0.9			
Tax benefit of ESOP dividends			0.3		
Tax benefit of stock options		0.5			
Options exercised	0.0	1.1	(0.9)		0.9
December 31, 1994	0.3	447.3	186.8	(42.2)	(3.2)
Net Income			47.3		
Cash dividends:					
Common ($0.56 per share)			(16.3)		
Convertible Preferred ($2.50 per share) (See Note 14)			(4.3)		
Issuance of Key Employees' and Directors' stock	0.0	0.0			(0.5)
Payment on ESOP note				5.8	
Purchase of treasury stock					0.1
Adjustment of minimum liabilities of pensions			1.2		
Success sharing			(0.3)		2.9
Tax benefit of ESOP dividends			0.3		
Tax benefit of stock options		0.1			
Stock forfeitures		0.0	0.0		(0.7)
Options exercised	0.0	0.4	(0.3)		0.4
Other			(0.4)		
December 31, 1995	$ 0.3	$ 447.8	$ 214.0	$ (36.4)	$ (1.0)

**The Preferred Stock that was issued in 1993 has a par value of $17,250 which is not reflected above since it does not round to the nearest $100,000. At December 31, 1995 and 1994, the Company held 41,138 shares and 117,794 shares, respectively, as treasury stock.*

Note 16 — LEASE COMMITMENTS

The Company leases certain machinery and equipment, transportation and marketing facilities, and office space under cancelable and non-cancelable leases, most of which expire within 20 years unless renewed.

Minimum annual rentals at December 31, 1995 were as follows:

	Operating Leases
1996	$ 49.3
1997	41.2
1998	35.7
1999	23.1
2000	15.8
2001 and thereafter	112.3
	$ 277.4

Rental expense for operating leases was as follows:

	1995	1994	1993
Total rentals	$ 34.5	$ 28.3	$ 21.1
Less—Sublease rental income	0.8	0.7	0.7
Rental expense	$ 33.7	$ 27.6	$ 20.4

The Company has an existing long-term lease arrangement (the "Brazos Lease") to accommodate its continued retail outlet construction program. The Brazos Lease has an initial lease term which will expire in April 1999.

Rent payable under the Brazos Lease is based upon the amounts spent to acquire or construct the outlets and the lessor's cost of funds from time to time. At December 31, 1995, approximately $15.3 million of the $190.0 million commitment remained available under the Brazos Lease to construct retail outlets.

After the non-cancelable lease term, the Brazos Lease may be extended by agreement of the parties, or the Company may purchase or arrange for the sale of the retail outlets. If the Company were unable to extend the lease or arrange for the sale of the properties to a third party in 1999, the amount necessary to purchase properties under the lease as of December 31, 1995 would be approximately $175.0 million.

Note 17 — COMMITMENTS AND CONTINGENCIES

In connection with the Spin-off, the Company and Maxus entered into a Distribution Agreement which, among other things, provides for the sharing by the Company and Maxus of certain liabilities relating to businesses of Maxus discontinued or disposed of prior to the Spin-off date. The Company's total liability for such shared costs is limited to $85.0 million. Payments with respect to the shared costs are made by Maxus and the Company is obligated to reimburse Maxus for the Company's share promptly after receipt of Maxus' invoice accompanied by appropriate supporting data. Inasmuch as the Company has already reimbursed Maxus for more than $37.5 million, the Company's share of remaining shared costs is one-third of the amounts paid by Maxus. Although some expenditures are still subject to audit, the Company has reimbursed Maxus for a total of $75.0 million as of December 31, 1995, including $11.4 million paid during 1995. See Note 3 for a change in the method of accounting for the liability.

Pursuant to the Distribution Agreement, the Company will also reimburse Maxus for one-third of all payments for the cost of certain medical and life insurance benefits for eligible retired employees made by Maxus after the Spin-off date with respect to persons who retired on or before the Spin-off date (see Note 7). The actuarial cost of these expected payments under the Distribution Agreement is included in the Accumulated Postretirement Benefit Obligation recorded as of January 1, 1992 (see Note 3).

The Company's commitments for future purchases are for quantities not in excess of anticipated requirements and at prices which will not result in a loss. There are no long-term contracts with crude oil suppliers which would fix the cost of future deliveries. The Company anticipates that it will sustain no losses in fulfillment of existing sales contracts.

The Company purchases its crude oil and other feedstocks from both domestic and foreign sources. During 1995, approximately 32% of the total feedstocks processed in the refineries was foreign crude oil. The Company does not anticipate any disruption in the availability of crude oil or other feedstocks, but the price of such commodities is beyond the Company's control, being affected by many factors including the supply and demand for crude oil, changes in domestic and foreign economies and political affairs, and the extent of governmental regulation.

The Company is a party to a number of lawsuits, the outcomes of which are not expected to have a material effect on the Company's financial position or results of operations.

Federal, state and local laws and regulations establishing various health and environmental quality standards affect nearly all of the operations of the Company. Included among such statutes are the Clean Air Act of 1955, as amended; the Clean Water Act of 1977, as amended; the Resource Conservation and Recovery Act of 1976, as amended; and the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

Regulations issued by the EPA in 1988 with respect to underground storage tanks require the Company, over a period up to ten years, to install, where not already in place, spill prevention manholes, tank overfill protection devices, leak detection devices, and corrosion protection on all underground tanks and piping at retail gasoline outlets. The regulations also require periodic tightness testing of underground tanks and piping. Commencing in 1998, operators will be required under these regulations to install continuous monitoring systems for underground tanks.

The Company has in effect policies, practices, and procedures in the areas of pollution control, product safety, occupational health, the production, handling, storage, use, and disposal of hazardous materials to prevent an unreasonable risk of material environmental or other damage, and the material financial liability which could result from such events. However, some risk of environmental or other damage is inherent in the business of the Company, as it is with other companies engaged in similar businesses.

None of the estimated costs or liabilities associated with individual locations identified as being in need of environmental remediation at December 31, 1995 is material to the results of operations of the Company. The environmental reserve of $18.9 million listed under Other Liabilities and Deferred Credits (see Note 12) is the fair value of a reserve established by NCS prior to its emergence from bankruptcy in March of 1993 for the cleanup of contaminated soil and groundwater caused by releases from underground gasoline storage tanks and underground piping systems and claims for third party damages relating to such releases. The actual costs may be higher or lower than that accrued due to the difficulty in estimating such costs and due to the potential changes in the status of regulations and state reimbursement programs.

Supplementary Financial Information (unaudited)

QUARTERLY FINANCIAL DATA

(dollars in millions, except per share) *1995 Quarter Ended*	March 31	June 30	Sept. 30	Dec. 31
Net sales	$ 676.7	$ 789.7	$ 746.3	$ 724.1
Gross profit(1)	44.9	83.2	46.1	48.1
Net income	5.4	28.0	5.7	8.2
Primary earnings per common share	0.15	0.93	0.16	0.24
Fully diluted earnings per common share	0.15	0.87	0.16	0.24
Cash dividends per share				
Common	$ 0.14	$ 0.14	$ 0.14	$ 0.14
Preferred	0.625	0.625	0.625	0.625
Market price per common share				
High	28 7/8	28 1/4	28 1/2	29 1/8
Low	22 1/8	23 3/8	23 7/8	23 5/8

1994 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Net sales	$ 583.8	$ 646.5	$ 700.4	$ 675.6
Gross profit(1)	52.1	82.3	68.7	62.8
Net income	12.2	27.5	20.6	15.5
Primary earnings per common share	0.38	0.91	0.67	0.49
Fully diluted earnings per common share	0.38	0.85	0.64	0.48
Cash dividends per share				
Common	$ 0.13	$ 0.13	$ 0.13	$ 0.14
Preferred	0.625	0.625	0.625	0.625
Market price per common share				
High	30	28 1/4	28 1/2	29 1/8
Low	24 1/8	23 3/8	23 7/8	23 5/8

(1) Gross profit is sales and operating revenues less cost of products sold and operating expenses and depreciation.

Selected Historical Financial Information (unaudited)

(dollars in millions, except per share)	1995	1994	1993	1992	1991
OPERATIONS					
Sales and operating revenues:					
Refining and Wholesale	$ 1,435.8	$ 1,320.8	$ 1,294.8	$ 1,290.4	$ 1,293.2
Retail	1,125.6	974.3	958.1	970.7	908.1
Allied Businesses	375.4	311.2	302.4	341.5	374.6
Total	$ 2,936.8	$ 2,606.3	$ 2,555.3	$ 2,602.6	$ 2,575.9
Operating profit:					
Refining and Wholesale	$ 85.8	$ 146.8	$ 73.9	$ 68.1	$ 86.8
Retail	55.6	58.9	62.7	46.6	26.1
Allied Businesses	48.1	26.0	15.0	22.9	32.5
Total	$ 189.5	$ 231.7	$ 151.6	$ 137.6	$ 145.4
Income from continuing operations	$ 47.3	$ 75.8	$ 32.6	$ 26.4	$ 37.1
Net income	$ 47.3	$ 75.8	$ 18.4	$ 8.7	$ 37.1
FINANCIAL POSITION					
Current assets	$ 654.9	$ 540.4	$ 356.2	$ 358.5	$ 409.8
Current liabilities	489.5	374.1	220.4	217.0	252.9
Properties and equipment, less accumulated depreciation	1,357.1	1,026.1	941.1	897.6	791.2
Total assets	$ 2,245.4	$ 1,620.8	$ 1,349.2	$ 1,297.5	$ 1,222.3
CAPITAL STRUCTURE					
Long-term debt including portion due within one year	$ 964.7	$ 513.1	$ 489.7	$ 536.9	$ 446.1
Deferred income taxes	57.0	81.5	48.7	61.4	65.6
Stockholders' equity	624.7	589.0	527.7	435.7	437.6
Total	$ 1,646.4	$ 1,183.6	$ 1,066.1	$ 1,034.0	$ 949.3
OTHER DATA					
Capital expenditures	$ 556.6	$ 162.1	$ 131.8	$ 170.5	$ 180.1
Depreciation and amortization	77.7	70.9	64.3	56.8	52.3
Book value per share*	19.47	18.45	16.40	16.50	16.76
PER COMMON SHARE					
Primary earnings:					
Continuing operations	$ 1.48	$ 2.45	$ 1.04	$ 0.92	$ 1.39
Net income	1.48	2.45	0.55	0.30	1.39
Fully diluted earnings:					
Continuing operations	$ 1.46	2.34	$ 1.04	$ 0.92	$ 1.36
Net income	1.46	2.34	0.55	0.30	1.36
CASH DIVIDENDS PER SHARE					
Common Stock	$ 0.56	$ 0.53	$ 0.52	$ 0.52	$ 0.52
Preferred Stock	2.50	2.50	1.28	—	—
FINANCIAL RATIOS					
Current ratio	1.3	1.4	1.6	1.7	1.6
Total debt as a percent of total capital	58.6%	43.4%	45.9%	51.9%	47.0%

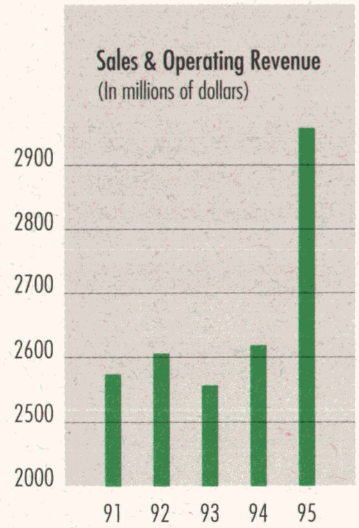
**Calculated excluding 1,340,983; 1,669,264; 1,985,102; 2,286,705; and 2,573,904 unallocated ESOP shares at December 31 of the respective years.*

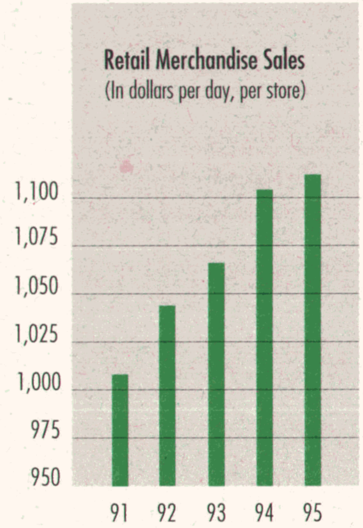
Five Year Operating Information (unaudited)

	1995	1994	1993	1992	1991
OPERATIONS					
Crude Oil Refining Capacity *(barrels per day at year-end)*					
McKee	140,000	135,000	125,000	120,000	110,000
Three Rivers	75,000	70,000	70,000	55,000	55,000
Total	215,000	205,000	195,000	175,000	165,000
Crude Oil Refined *(barrels per day)*					
McKee	130,439	126,235	118,949	112,909	111,765
Three Rivers	74,499	69,428	61,280	51,775	48,238
Total	204,938	195,663	180,229	164,684	160,003
Capacity Utilization	95.3%	95.4%	92.4%	94.1%	97.0%
Total Inputs *(barrels per day)*					
Domestic Crude Oil	135,418	139,099	137,672	145,687	140,244
Foreign Crude Oil	69,520	56,564	42,557	18,997	19,759
Other Feedstocks	14,238	13,888	16,528	16,034	19,003
Total	219,176	209,551	196,757	180,718	179,006
Crude Oil Purchase Cost *(dollars per barrel)*	18.58	17.08	18.57	20.64	21.83
Inventory *(thousands of barrels at year-end)*					
Crude Oil	7,210	7,717	2,499	1,796	3,085
Petroleum Products	3,794	3,277	3,736	2,845	3,509
REFINED PRODUCT SPREAD *(dollars per barrel)*					
Product Sales Prices	22.31	21.53	22.39	24.04	25.55
Raw Material Costs	18.82	17.13	18.63	20.83	21.76
Refined Product Spread	3.49	4.40	3.76	3.21	3.79
PRODUCTS MANUFACTURED *(barrels per day)*					
Gasoline	124,573	120,377	112,974	104,220	103,271
Diesel Fuel	47,663	44,425	39,952	31,462	34,478
Aviation Fuel	17,946	18,921	17,602	18,900	16,382
Other	30,751	26,478	26,014	24,965	24,900
Total	220,933	210,201	196,542	179,547	179,031
WHOLESALE REFINED PRODUCT SALES *(barrels per day)*					
Gasoline	153,140	142,016	134,954	128,507	122,831
Diesel Fuel	52,484	49,102	43,774	36,487	37,686
Aviation Fuel	18,705	21,206	20,437	21,043	15,944
Other	13,817	13,373	12,872	13,156	12,148
Total	238,146	225,697	212,037	199,193	188,609
WHOLESALE REFINED PRODUCT SALES *(dollars per barrel)*					
Gasoline	24.37	23.06	24.15	26.54	28.09
Diesel Fuel	22.04	21.46	22.99	24.49	25.39
Aviation Fuel	22.50	22.05	23.78	25.07	26.95
Other	14.96	14.32	14.43	13.45	14.24

Five Year Operating Information (unaudited continued)

	1995	1994	1993	1992	1991
RETAIL					
Number of Retail Outlets *(at year-end)*					
Company Operated	1,506	810	776	761	763
Company Owned	715	496	504	518	529
Company Leased	791	314	272	243	234
RETAIL SALES					
Gasoline *(barrels per day)*	61,766	56,410	55,473	53,931	50,876
Diesel *(barrels per day)*	2,216	1,795	1,606	1,455	1,164
Merchandise *($000/day)*	957.9	872.9	820.7	792.6	710.5
OTHER DATA					
Number of Jobber Outlets *(at year-end)*	1,203	1,206	1,194	1,163	1,155
Miles of Products Pipelines *(at year-end)*	2,959	2,484	2,291	2,290	2,275
Miles of Crude Oil Pipelines *(at year-end)*	1,268	1,289	2,110	2,110	1,839





Board of Directors

Seated from left to right

Bob Marbut
Chairman and CEO
Argyle Television, Inc.
San Antonio, Texas

E. Glenn Biggs
President
Biggs & Co.
San Antonio, Texas

William E. Bradford
President and CEO
Dresser Industries, Inc.
Dallas, Texas

Dr. Lauro F. Cavazos
Adjunct Professor of Family Medicine and Community Health
Tufts University School of Medicine
Boston, Massachusetts
Former U.S. Secretary of Education

Standing from left to right

B. Charles Ames
Partner, Clayton & Dubilier, Inc.
New York, New York

Katherine D. Ortega
Former Alternate Representative of the United States to the 45th General Assembly of the United Nations
38th Treasurer of the United States
Washington, D.C.

Roger R. Hemminghaus
Chairman, CEO, and President
Diamond Shamrock, Inc.
San Antonio, Texas

Dr. William L. Fisher
Professor and the Leonidas T. Barrow chair in Mineral Resources
The University of Texas
Austin, Texas

W. H. Clark
Former CEO and Chairman
Nalco Chemical Company
Chicago, Illinois

Officers

Roger R. Hemminghaus
Chairman, CEO, and President
Age: 59; B.S., Auburn University
Joined the company in 1984.
Background includes engineering, operations, strategic planning, and management

A. W. "Ed" O'Donnell
President, Marketing, and Senior Vice President/Group Executive
Age: 63; B.A., Manhattan College
Joined the company in 1985.
Background includes marketing and management

Penelope Rhude Viteo
Vice President, Human Resources
Age: 43; B.A., University of Texas; J.D., Texas Tech University School of Law
Joined the company in 1978.
Background in law

Robert S. Beadle
Vice President, Retail Marketing
Age: 46; B.S. and M.S., Cornell University
Joined the company in 1976.
Background in engineering, marketing, planning, public affairs, crude supply, and petrochemicals

Thomas A. Lyons
Vice President, Crude Oil Supply
Age: 46; B.A., Glenville State College
Joined the company in 1972.
Background in retail marketing and product supply and distribution

John S. Emley
Vice President, Information Systems
Age: 48; B.S., University of Michigan; M.B.A., Case Western Reserve University;
Joined the company in 1974.
Background in finance, planning, and engineering

L. Don Thurmond
Vice President, NCS, Wholesale Marketing
Age: 52; attended Southwest Texas State University
Joined the company in 1971.
Background in retail operations, marketing, and advertising

William R. Klesse
Executive Vice President
Age: 49; B.S., University of Dayton; M.B.A., West Texas A&M University
Joined the company in 1969.
Background in engineering, marketing, supply, petrochemicals, planning, and public affairs

Timothy J. Fretthold
Senior Vice President/Group Executive and General Counsel
Age: 46; B.A., Yale University; J.D., Case Western Reserve University
Joined the company in 1977.
Background in law and public affairs

Gary E. Johnson
Vice President, and Controller
Age: 60; B.S., Kent State University
Joined the company in 1960.
Background in accounting and financial management

Robert E. Kerns
Vice President, McKee Plants
Age: 58; B.S., Texas Tech University
Joined the company in 1961.
Background in engineering and refining operations

Joseph C. Shockney
Vice President, Planning and Development
Age: 58; B.S., Purdue University; M.S., Massachusetts Institute of Technology
Joined the company in 1965.
Background in engineering, information systems, planning and development

Lynn Hillman
Vice President, Pipelines and Terminals
Age: 50; B.S., Clarkson University
Joined the company in 1988.
Background in engineering and crude oil supply

Douglas B. Binford
Vice President, Merchandising
Age: 52; B.S., West Virginia State College
Joined the company in 1995.
Background in retail marketing and merchandising

J. Robert Mehall
Executive Vice President
Age: 53; B.S., West Virginia University; M.B.A., Purdue University; M.S., Case Western Reserve University
Joined the company in 1972.
Background in engineering, supply, research, manufacturing, and marketing

W. Paul Eisman
Vice President, Refining and Group Executive
Age: 40; B.S., Texas Tech University
Joined the company in 1979.
Background in engineering and refining operations

Robert C. Becker
Vice President and Treasurer
Age: 54; B.S., Ohio State University
Joined the company in 1966.
Background in accounting and financial management

Lyle E. Hawthorne
Vice President, Engineering
Age: 62; B.S., University of Nebraska
Joined the company in 1967.
Background in engineering

Patrick W. McConahy
Vice President, International Operations
Age: 45; B.S., California Polytechnic State University at San Luis Obispo
Joined the company in 1979.
Background in human resources

Mike Milam
Vice President, Operations
Age: 41; B.S., Texas Tech University; M.B.A., West Texas A&M University
Joined the company in 1978.
Background in engineering and refining operations

Jerry D. King
Managing Attorney, Assistant General Counsel, and Corporate Secretary
Age: 45; B.A., Colorado State University; J.D., Baylor University
Joined the company in 1976.
Background in law

General Information

Executive Offices

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Amarillo, Texas 79101
Phone 806/378-3601

McKee Refinery
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Sunray, Texas 79086-9705
Phone 806/935-2141

Mont Belvieu Operations
P.O. Box 569
819 South Main
Mont Belvieu, Texas 77580
Phone 713/576-3200

Natural Gas Liquids Marketing, Storage, and Distribution
2900 North Loop West, Suite 1400
Houston, Texas 77092-8889
Phone 713/684-1100

Nitromite Fertilizer
P.O. Box 8026
Amarillo, Texas 79114
4211 I-40 West, Suite 200
Amarillo, Texas 79106
Phone 806/356-0040

North American InTeleCom, Inc.
14100 San Pedro, Suite 400
San Antonio, Texas 78232
Phone 210/352-1400

Three Rivers Refinery
P.O. Box 490
301 Leroy Street
Three Rivers, Texas 78071
Phone 512/786-2536

Stock Transfer and Dividend Disbursing Agent
KeyCorp Shareholder Services, Inc.
P.O. Box 6477
Cleveland, Ohio 44101-1477
Phone 800/542-7792

Account Information
For specific information related to stockholder records, such as change of address, transfer of ownership, payment of cash dividends, or replacement of lost checks or stock certificates, please write directly to the transfer agent:

KeyCorp Shareholder Services, Inc.
P.O. Box 6477
Cleveland, Ohio 44101-1477
Phone 800/542-7792

Stockholder Information
If you need assistance in understanding stock transactions, your responsibilities, or the services performed by the transfer agent, call:

Diamond Shamrock, Inc.
Shareholder Services
Phone 210/641-8795, press 3

For information about Diamond Shamrock, call:

Investor Relations
Phone 210/641-8795, press 4

Principal Market Information
Trading Symbol: DRM
New York Stock Exchange
CUSIP Number 252747-10-0

Independent Accountants
Price Waterhouse LLP
San Antonio, Texas

Financial Information
You may obtain a copy of the company's Annual Report, 10-K, and other financial information, free of charge, by writing:

Diamond Shamrock
Attn: Investor Relations
P.O. Box 696000
San Antonio, Texas 78269-6000
Phone 210/641-8795, press 1

Employment Opportunities
Diamond Shamrock is an equal employment opportunity employer.

Diamond Shamrock and its subsidiaries fully support the concept and practice of equal employment opportunities. It is Diamond Shamrock's policy to recruit, employ, compensate, train, promote, transfer, and otherwise treat all employees similarly without regard to race, color, religion, gender, age, national origin, disability, or veteran status.

Decisions on employment and promotions are based solely upon the individual's qualifications for the position being filled. All personnel actions such as compensation, benefits, transfers, company sponsored training, education, and social and recreational programs are administered in accordance with this policy.

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